

SANTA BARBARA COUNTY ASSESSMENT PRACTICES SURVEY

NOVEMBER 1998

CALIFORNIA STATE BOARD OF EQUALIZATION

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E. L. SORENSEN, JR., EXECUTIVE DIRECTOR



FOREWORD

The county assessor is responsible for the assessment of all taxable property within the county, except state-assessed property. The assessor's responsibilities include such things as (1) discovering and taking inventory of all property within the county; (2) determining a property's eligibility for a full or partial exemption from assessment; (3) determining the proper assessee; (4) determining the location for assessment purposes of the property; and (5) determining the taxable value of the property in accordance with California property tax law.

Determining taxable value is usually the most difficult and subjective of the assessor's duties. In addition to the inherently subjective nature of the appraisal process, the assessor also has to determine whether the taxable value is to be based on current fair market value or on a value base set earlier. When there is construction activity on a property, the assessor has to determine whether the construction is to be assessed or whether it is excluded from assessment under the law. When there is an ownership transaction, the assessor has to determine whether the law requires a reassessment of the property or whether the property must continue to be assessed according to the existing value base.

The factors discussed above, as well as others not mentioned here, contribute to making local property tax assessment a difficult tax program to administer. It is also a very important program since the property tax is one of the most important sources of revenue for local governments and public schools. For property owners it is a major annual tax burden, and, since it is normally paid in one or two large installments rather than many small increments, it tends to be more visible than most other taxes. Accordingly, proper administration of the property tax assessment program is vitally important both to the public agencies that rely on the tax and to the people who have to pay the tax.

Although the primary responsibility for local property tax assessment is a function of county government, the State Board of Equalization (BOE) has a number of duties in the property tax field imposed by the State Constitution and the Legislature. One of these duties, performed by the BOE's County Property Tax Division, is to conduct periodic surveys of local assessment practices and report the findings and recommendations that result from the survey. The surveys may include a sampling of assessments of the local assessment roll, and they must include research in the assessor's office to determine the adequacy of the procedures and practices employed by the assessor in the assessment of taxable property, compliance with state law and regulations, and other required duties.

The assessor was provided a draft of this report and given an opportunity to file a written response to the recommendations and other findings contained in the report. This report, together with the county assessor's response and the BOE's comments regarding the response, constitutes the final survey report which is distributed to the Governor, the Attorney General, both houses of the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey report of the Santa Barbara County Assessor's Office was completed by County Property Tax Division staff during July and August of 1997. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Kenneth Pettit, Santa Barbara County Clerk-Recorder-Assessor & Registrar, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

William B. Jackson, Chief
County Property Tax Division
Department of Property Taxes
California State Board of Equalization
November 1998

**COUNTY PROPERTY TAX DIVISION SURVEY GROUP
SANTA BARBARA COUNTY SURVEY**

Survey Program Director:

J. Thomas McClaskey

Principal Property Appraiser

Field Sample Team Supervisor

Claudia Tendal

Supervising Property Appraiser

Field Sample Team

Norwalk Field Office

Office Survey Team Supervisor

Claudia Tendal

Supervising Property Appraiser

Office Survey Team

Hadley Alger

James McCarthy

Beverly Morrison

Les Morris

Rod Miyatake

Mike Parker

Tina Krause

Delia Garcia

Senior Specialist Auditor Appraiser

Senior Petroleum and Mining

Appraisal Engineer

Associate Auditor Appraiser

Associate Property Appraiser

Associate Property Appraiser

Associate Property Appraiser

Junior Property Appraiser

Tax Technician

TABLE OF CONTENTS

FOREWORD	I
COUNTY PROPERTY TAX DIVISION SURVEY GROUP	III
TABLE OF CONTENTS	IV
EXECUTIVE SUMMARY	1
<i>Introduction</i>	<i>1</i>
<i>Overview of the Santa Barbara County Assessment Roll</i>	<i>2</i>
<i>Summary</i>	<i>2</i>
<i>Recommendations and Suggestions</i>	<i>4</i>
ADMINISTRATION	7
<i>Budget and Workload Comparisons</i>	<i>7</i>
<i>State-County Property Tax Administration Program</i>	<i>9</i>
<i>Training</i>	<i>10</i>
<i>Computer systems and other technology changes</i>	<i>12</i>
<i>Assessment Appeals</i>	<i>14</i>
<i>Low-Value Property Exemption</i>	<i>15</i>
<i>Disaster Relief</i>	<i>15</i>
<i>Assessment Roll Changes</i>	<i>16</i>
<i>Standards and Quality Control</i>	<i>17</i>
REAL PROPERTY VALUATION AND ASSESSMENT	19
THE APPRAISAL PROGRAM	19
<i>Introduction</i>	<i>19</i>
<i>Change in Ownership</i>	<i>20</i>
<i>New Construction</i>	<i>22</i>
<i>Declines in Value</i>	<i>24</i>
SPECIAL PROPERTY TYPES AND PROCEDURES	26
<i>California Land Conservation Act Properties</i>	<i>26</i>
<i>Taxable Government-Owned Properties</i>	<i>27</i>
<i>Possessory Interests</i>	<i>28</i>
<i>Cable Television</i>	<i>33</i>
<i>Manufactured Homes</i>	<i>34</i>
<i>Water Company Property</i>	<i>36</i>
<i>Petroleum Properties</i>	<i>37</i>
<i>Mining Properties</i>	<i>39</i>
<i>Pipeline Rights of Way</i>	<i>41</i>
BUSINESS AND PERSONAL PROPERTY VALUATION AND ASSESSMENT	42
<i>Introduction</i>	<i>42</i>
<i>Audit Program</i>	<i>42</i>
<i>Business Property Assessment</i>	<i>45</i>
<i>Equipment Valuation Factors</i>	<i>46</i>
<i>Computers</i>	<i>47</i>
<i>Vessels</i>	<i>47</i>
<i>Aircraft</i>	<i>48</i>
APPENDIX	49
THE ASSESSMENT SAMPLING PROGRAM	49

EXECUTIVE SUMMARY

INTRODUCTION

Section 15640 of the Government Code, in part, mandates that the State Board of Equalization (BOE) shall:

" . . . make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her. The survey may include a sampling of assessments from the local assessment rolls sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county. . . ."

It is apparent from this language that the Legislature envisioned the BOE's appraisal sampling and its office survey to be parts of a single, connected process, i.e., the evaluation of how well the county assessor is carrying out his or her sworn duty to properly assess all taxable property on the local tax roll. This evaluation was to be based both on actual field appraisals of sampled roll items and in-office interviews and research.

Section 15640 also states:

"The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process."

The way in which the sampling and survey process is carried out was developed after consultation with the county assessors by the staff of the County Property Tax Division (CPTD).

This report is the culmination of a review of the Santa Barbara County Assessor's operation that began with CPTD staff appraisals of sample properties from the county assessment roll and concluded with research in the assessor's office. The appraisal sample, which consisted of properties selected on the basis of assessment category and assessed value, was drawn from the 1994-95 assessment roll. Following completion of the sampling phase, the survey team conducted research in the assessor's office during July and August of 1997. First, the survey team reviewed the assessor's current operations (as of mid-1997) to determine whether significant problems identified in either the prior survey report (published July 1994) or the sampling of the 1994-95 assessment roll continue to exist or have been corrected. The team also reviewed numerous other operations that represent common challenges to California assessor's offices or that are of particular importance in Santa Barbara County up to and as of August 1997.

As directed by section 15642 of the Government Code, this report contains summaries of the volume and types of assessment work required of the Santa Barbara County Assessor, the responsibilities devolving upon the assessor, and the extent to which assessment practices are consistent with or differ from state laws and regulations. Finally, the report focuses on problems identified by our survey team and includes recommendations and suggestions to help the assessor resolve those problems.

OVERVIEW OF THE SANTA BARBARA COUNTY ASSESSMENT ROLL

The CPTD's field appraisal team completed appraisals of 260 properties of all types assessed on the 1994-1995 Santa Barbara County assessment roll. This roll contained a total of 129,277 assessments having a total enrolled value of \$23,116,848,780. (For a detailed explanation of CPTD's assessment sampling program, see the Appendix at the end of this report). Sampling data indicated the roll was composed by property type as follows:

Property Type	No. of Assessments In County	Enrolled Value
Residential	95,619	\$16,296,248,890
Rural	3,855	\$1,447,671,881
Commercial Industrial	23,864	\$5,147,641,079
Miscellaneous	5,939	\$ 225,286,930
Totals	129,277	\$23,116,848,780

This survey was conducted according to the method mandated by section 15642 of the Government Code. Following legislative direction, our survey primarily emphasizes issues that involve revenue generation or statutory mandate.

SUMMARY

Revenue and Taxation Code section 75.60 requires the BOE to certify that a county is eligible to recover the administrative costs of processing supplemental assessments. In order to be eligible, a county assessor must achieve an average assessment level that is at least 95 percent of the assessment level required by statute. And, the sum of the absolute values of the differences must not exceed 7.5 percent of the total amount of the county's assessed value, as determined by CPTD in its assessment survey.

Based upon CPTD's sampling of its 1994 roll, Santa Barbara County is eligible for reimbursement of the costs associated with administering supplemental assessments. The county's expansion ratio indicated an average assessment level of 99.8 percent. The ratio of absolute differences was calculated at 3.58 percent. This indicates that the assessor's program complies substantially with property tax statutes.

Since our last assessment practices survey, the board of supervisors approved the consolidation of the offices of assessor, recorder, clerk, and registrar of voters. The Santa Barbara County

Assessor is the assessor/recorder/clerk/registrar of voters, but, in this report, will be referred to as the assessor and his assessing operations as the assessor's office.

Our last assessment practices survey of the Santa Barbara County Assessor's Office resulted in some 30 recommendations and seven suggestions, covering a wide range of assessment activities. Many of the recommendations dealt with the lack of standardized appraisal procedures among headquarters and the various field offices. Of particular concern were the training deficiencies among the assessor's valuation staff and the serious backlog in mandatory audits.

The assessor has since addressed many of those problems. He has recognized the importance of continuing education and taken appropriate actions by dedicating increased resources to training, as well as appointing a training coordinator. As a result, the number of valuation staff deficient in their training requirement has gone from 40 percent to 20 percent since our last survey. With regard to standards and quality control, a recent reorganization and centralization of selected assessment functions is expected to enhance appraisal uniformity and consistency.

The assessor must be commended for implementing previous recommendations, or portions thereof, regarding change in ownership, possessory interests, the Legal Entity Ownership Program (LEOP), petroleum and mining properties, California Land Conservation Act properties, roll changes, aircraft, and manufactured homes. Additionally, while the assessment of tenant improvements is a problem in many assessors' offices, we note that in the Santa Barbara County Assessor's Office effective communication and coordination between the real property and business property divisions has contributed to consistent and proper tenant improvement assessments. We also commend the assessor for the significant improvements made to the business property assessment program.

The assessor has procured funding for a major upgrade to the computer system. 'START,' a four-phase project, replaces the existing mainframe system with client-server technology and integrates the functions and duties of three county agencies. Furthermore, a new geographic information system (GIS) in the mapping section provides an easily accessible database and benefits not only the assessor's office, but a number of other county agencies as well.

By electing to participate in the State-County Property Tax Administration Program, the assessor's office has received \$926,817 for the enhancement of property tax administration for each of the fiscal years 1995-96, 1996-97, and 1997-98. These monies have been targeted for backlog reductions in new construction, changes in ownership, mandatory audits, declines in value, and assessment appeals.

Several assessment programs continue to need improvement, however, as evidenced by the recommendations and suggestions contained in this report. Some are repeated from our previous survey. For example, training must continue to be a top priority. All of the assessor's valuation staff need to be current in their annual training requirements. The lack of standards and quality control continues in several areas of assessment, and we recommend development of a formalized procedures manual for the real property division.

Although significant improvements have been made to the audit program and progress made on backlogged audits, the audit program remains in arrears by 178 audits as of July 1997. We strongly recommend that the necessary resources be devoted to bringing mandatory audits to current status.

RECOMMENDATIONS AND SUGGESTIONS

This report contains both recommendations and suggestions for improvements to the operation of the Santa Barbara County Assessor's Office.

Government Code section 15645 requires the assessor to respond in writing to the formal recommendations contained in this report.¹ Our recommendations are reserved for situations where one or more of the following conditions exist:

- Violations of state constitutional provisions, statutes, BOE regulations, or case law are present;
- Existing assessment practices result in property escaping assessment or generation of an incorrect amount of property tax revenue;
- Existing appraisal practices do not conform to BOE-adopted appraisal methodologies.

Our suggestions are considered less formal than recommendations, and the assessor is not required to make any response to suggestions. Typically, suggestions are BOE staff opinions on ways the assessor can improve efficiency, product quality, or other matters that do not call for formal recommendations.

Here is a summary of the formal recommendations and suggestions contained in this report, arrayed in the order that they appear in the text. The page is noted where each recommendation and its supporting text may be found.

RECOMMENDATIONS

RECOMMENDATION 1: Fulfill the staff training requirements as required by the Revenue and Taxation Code. (Page 11)

RECOMMENDATION 2: Issue supplemental assessments for all structural leasehold improvements. (Page 24)

RECOMMENDATION 3: Review the staffing needs of the agriculture valuation program. (26)

¹ Government code section 15645 provides, in relevant part: "Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of the response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate."

- RECOMMENDATION 4:** *Revise possessory interest assessment practices by: (1) reviewing private uses of fairgrounds and assessing taxable possessory interests; and (2) revising the valuation of grazing leases by using agricultural capitalization rates, market rents, and animal unit months (AUM). (Page 29)*
- RECOMMENDATION 5:** *Enroll the base year value of the cable television companies for the appropriate assessment year. (Page 34)*
- RECOMMENDATION 6:** *Identify and appraise all water company properties located within the boundaries of Santa Barbara County. (Page 37)*
- RECOMMENDATION 7:** *Revise the petroleum appraisal procedures by: (1) adjusting base year values for properties that have had reserve reductions beyond depletion; (2) recognizing all revenue to the property when determining current market value; (3) prorating the value of idle wells to reflect proved reserves; and (4) recognizing abandonment expenses when they are expected to occur. (Page 38)*
- RECOMMENDATION 8:** *Revise the mining properties appraisal procedures by: (1) including mineral rights in the appraisal unit; (2) reconstructing mineral appraisal worksheets to reflect provisions of Property Tax Rule 469; (3) requiring property statements be completed with all necessary information to make an appraisal; and (4) documenting differences between reserves reported by the property owner and those used by an appraiser to value property. (Page 39)*
- RECOMMENDATION 9:** *Bring the mandatory audit program up to current status. (Page 43)*
- RECOMMENDATION 10:** *Follow statutory requirements when determining audit results and enrolling escaped assessments. (Page 44)*
- RECOMMENDATION 11:** *Apply the 10 percent penalty per Revenue and Taxation Code section 463 to secured business accounts. (Page 45)*
- RECOMMENDATION 12:** *Use the Board's equipment index factors as recommended. (Page 47)*

SUGGESTIONS

- SUGGESTION 1:** *Request that the board of supervisors pass a continuing ordinance that grants disaster relief to qualifying property owners. (Page 16)*
- SUGGESTION 2:** *Develop and maintain a formalized written procedures manual for the real property division. (Page 18)*

SUGGESTION 3: *Improve documentation on appraisal records of cost factors used in the cost approach to value. (Page 23)*

SUGGESTION 4: *Document the appraisal records to show the basis of current market value estimates, including date of appraisal, for taxable government-owned property. (Page 28)*

SUGGESTION 5: *Obtain the names of the specific federal and state agencies that manage the properties currently listed as owned by “USA” and “State of California.” (Page 29)*

SUGGESTION 6: *Ensure compliance with section 5813 of the Revenue and Taxation Code when reviewing manufactured home values for declines in value on each lien date. (Page 35)*

SUGGESTION 7 *Verify that business owners who report aircraft and marine vessels are receiving business property statements. (Page 46)*

ADMINISTRATION

BUDGET AND WORKLOAD COMPARISONS

The following analysis utilizes the State Board of Equalization’s *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors’ Offices, 1995-96*, dated May 1997. This report is a compilation and analysis of data by the Board’s Policy, Planning, and Standards Division originating from an annual questionnaire which is sent to all assessors. The data has been voluntarily submitted by the assessors and has not been audited by Board staff.

The purpose of our analysis is to see how the Santa Barbara County Assessor’s Office compares with other counties that are similar in one or more important ways. We caution the reader that the budget and staffing of the Santa Barbara County Assessor’s Office, or that of its comparables, are not assumed to be adequate or proper. These comparisons are merely meant to illustrate how counties compare in total local roll units, net budget, total staff, units worked per appraiser, etc. No two counties are exactly alike and a variety of factors can greatly affect individual budget and workload comparisons.

Total Roll Units and Net Roll Value

The primary criteria used in choosing comparables for the Santa Barbara County Assessor’s Office is Total Local Roll Units. Roll size could be indicative of a minimally acceptable staff and budget level. In other words, counties close in number of roll units would presumably need similarly sized staff and budget. Of course, property type mix, ratio of rural to urban uses, and county size are also important influences; but, in general, Total Local Roll Units is considered a valid starting point.

Table 1. Comparison of Santa Barbara County with similar counties, based on Total Roll Units (unaudited data).

County	Total Roll Units	Total Secured Roll Units	Total Unsecured Roll Units	Total Net Roll Value in 000’s
Placer	120,142	104,824	15,315	\$17,008,508
Monterey	127,906	106,692	21,214	\$21,037,146
Solano	141,820	123,393	18,427	\$18,530,233
Santa Barbara	143,734	118,071	25,663	\$25,379,754
Stanislaus	146,229	120,313	25,916	\$17,925,058
Tulare	147,156	126,655	20,501	\$13,167,036
San Luis Obispo	153,707	120,728	32,979	\$18,328,470
<i>Mean</i>	<i>140,099</i>	<i>117,239</i>	<i>22,859</i>	<i>\$18,768,029</i>

Assessor’s Budget and Assessment Roll

The following comparison is the amount of money budgeted per roll unit. This table reflects Net Budget, Budget Per Roll Unit, and Roll Value per Budget Dollar.

Table 2. Net budget comparisons of Santa Barbara County with similar counties (unaudited data).

County	Net Budget	Budget Per Roll Unit	Roll Value Per Budget Dollar
Placer	\$2,636,464	\$21.94	\$6450
Monterey	\$2,297,159	\$17.96	\$9160
Solano	\$2,051,560	\$14.47	\$9030
Santa Barbara	\$2,442,641	\$16.99	\$10390
Stanislaus	\$2,084,246	\$14.25	\$8600
Tulare	\$2,707,448	\$18.40	\$4860
San Luis Obispo	\$3,250,049	\$21.14	\$5640
<i>Mean</i>	\$2,495,652	\$17.87	\$7732

Staffing

Table 3 shows staffing levels by the following categories: Assessor & Other Managers, Real Property Appraisers, Business Property Auditor-Appraisers, and Total Staff.

Table 3. Staffing levels of Santa Barbara County compared to similar counties (unaudited data).

County	Assessor & Managers	Real Property Appraisers	Auditor-Appraisers	Total Staff
Placer	5	19	4	65
Monterey	3	17	7	48
Solano	4	14	5	43
Santa Barbara	5	25	8	74
Stanislaus	3	27	6	55
Tulare	2	23	7	53
San Luis Obispo	3	23.5	4.5	68
<i>Mean</i>	4	21	6	58

Table 4 shows workloads by staffing unit and roll value per staff member calculated by dividing the appropriate secured and unsecured roll units or total roll value by the staffing level.

Table 4. Workloads by staffing unit of Santa Barbara County compared to similar counties (unaudited data).

County	Secured Roll Units Per Appraiser	Unsecured Roll Units Per Auditor-Appraiser	Total Roll Value Per Staff Member (000's)
Placer	5,517	3,828	\$261,669
Monterey	6,276	3,030	\$438,273
Solano	8,813	3,685	\$430,935
Santa Barbara	4,722	3,207	\$342,969
Stanislaus	4,456	4,319	\$325,926
Tulare	5,506	2,928	\$248,434
San Luis Obispo	5,137	7,328	\$269,536
<i>Mean</i>	5,775	4,046	\$331,106

In any given year, only a portion of the secured and unsecured units may involve current appraisal work. Units worked in the 1995-96 assessment year per appraiser and auditor-appraiser are shown in Table 5.

Table 5. Workloads by roll units in Santa Barbara County compared to similar counties (unaudited data).

County	Number of Real Property Units Worked	Units Worked Per Appraiser	Number of Unsecured Units Worked	Units Worked Per Auditor- Appraiser
Placer	36,474	1,919	14,899	3,724
Monterey	23,115	1,359	22,320	3,188
Solano	40,308	2,828	16,933	3,386
Santa Barbara	39,349	1,574	27,650	3,456
Stanislaus	32,387	1,199	18,802	3,133
Tulare	40,574	1,764	27,409	3,915
San Luis Obispo	34,697	1,416	44,685	9,930
<i>Mean</i>	<i>35,272</i>	<i>1,722</i>	<i>24,671</i>	<i>4,390</i>

STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

Section 95.31 provides that upon recommendation of the assessor and the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (PTAP). To participate, a county must enter into a loan agreement or contract with the State Department of Finance to enhance its property tax administration system, reduce reassessment backlogs, and maximize enrollment capabilities. The loan cannot be used to supplant the assessor’s current level of funding, and the county must maintain a base staffing level, independent of the loan proceeds, that is equal to the levels in the 1994-95 fiscal year.

Each contract contains performance measures that must be met in order to have a loan amount forgiven. The completion of these measures would, in theory, generate property tax revenue to schools greater than, or equal to, the loan amount.²

In March, 1996, the Santa Barbara County Board of Supervisors, upon the recommendation of the assessor, elected to participate in the PTAP for the period beginning with the 1995-96 roll year and ending June 30, 2000.

Under the contract, the state agreed to loan the county \$926,817 for fiscal years 1995-96, 1996-97, and 1997-98. Santa Barbara County agreed to maintain staffing and total general fund levels equal to or exceeding those of the 1994-1995 fiscal year. Santa Barbara County agreed to use these funds to reduce backlogs in the following assessment categories:

- assessable new construction
- reappraisable changes in ownership
- mandatory business audits

²Provision 6 of the Santa Barbara County contract: The loan will be considered repaid if the county reduces its backlog of unworked permits and transfers so its “percentage of success” exceeds 95%. This is computed by using the following formula that is stated in the agreement.

$\frac{A + (B-C)}{A}$	A = The actual accumulated number of reassessments completed
	B = The backlog goal
	C = The achieved backlog

- declines in value (commonly referred to as “Proposition 8”)
- assessment appeals.

For the initial loan, the assessor proposed PTAP fund allocations for recruitment of appraisal and clerical staff, and to upgrade data processing systems. Some funds were allocated to the clerk of the board, the auditor-controller, the treasurer-tax collector, and the county counsel to improve their departments’ coordination with the assessor-recorder’s office. Additionally, a nonexpended amount of \$173,000 that remained after recruitment of personnel was allocated to augment the assessor’s budgeted funding for technical modifications, software, recruitment of additional programmer analysts, and technical support personnel. The assessor also used these funds to acquire additional personal computers (PC’s) and software for staff, as well as upgrades to the in-house data processing capabilities.

Santa Barbara County’s contract specifies the performance measures required to have the loan amount forgiven. The assessor must report the actual workload, the number of reassessments completed, and the average increment of assessed value change generated by the assessment. Under the contract terms, the county’s auditor-controller must verify the assessor’s reported figures and the calculations. The assessor reported, and the auditor-controller verified by audit, that the required “percentage of success,” as defined in the contract, was achieved for each of the assessment categories. The following table shows the added or retained assessed value resulting from enrolling backlogged assessable events for fiscal year 1995-1996, the total of which is estimated to be in excess of \$606,800,000.

Table 6. Santa Barbara County’s performance by assessment category per PTAP contract.

Assessment Category	Actual 95/96 Workload + Starting Backlog	Number of Assessments Completed 95/96	Backlog as of 6/30/96	Number of Backlog Assessments Completed	Assessed Value from Backlog Assessments
New Construction	4,158	4,131	27	159	\$34,761,543
Reappraisable Transfers	6,346	6,283	63	52	\$22,823,593
Assessment Appeals	2,047	1,058	989	1,058	\$558,673,377
Mandatory Business Audits	414	184	220	184	\$3,828,229
“Prop 8” Assessment Reviews	19,921	19,733	188	92	(\$13,225,657)

TRAINING

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers shall complete at least 24 hours of approved training each year in order to retain a valid appraiser’s certificate. Appraisers in possession of an advanced appraiser’s certificate need only 12 hours of training each year. The BOE is charged with ensuring that these requirements are met.

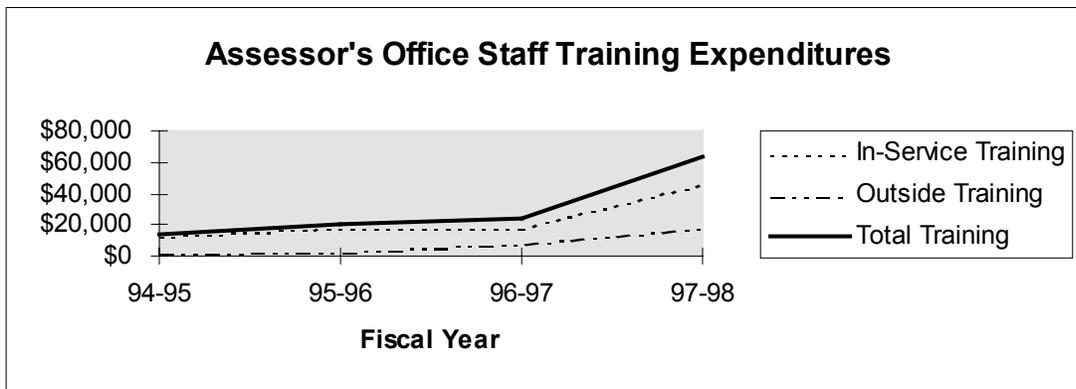
To qualify for an advanced appraiser's certificate, an appraiser must have a minimum of six BOE courses with at least two courses classified as advanced. Outside courses that can be substituted for a BOE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

RECOMMENDATION 1: *Fulfill the staff training requirements as required by the Revenue and Taxation Code.*

Our prior assessment practices survey noted serious deficiencies in appraisal staff training requirements and recommended the assessor ensure his appraisal staff meet statutory training requirements. Our current review found significant improvement in the assessor's support for appraisal training. Previously, we found that nearly 40 percent of the county's appraisal staff had a training deficit. Based on the latest training records available at the time of our fieldwork, July 1, 1996, slightly less than 20 percent of the appraisal staff are in arrears in their training requirement, which is a significant improvement.

Two senior appraisers and two appraiser IIIs do not have their advanced certification in addition to being seriously in arrears in their training requirements. Although not required to have an advanced certificate, the assessment responsibilities of these appraisers involve complex appraisal issues requiring advanced training and experience. For this level of appraiser, obtaining an advanced certificate would acknowledge their expertise and reinforce their professional credibility, as well as reduce their annual training requirement.

The current assessor has demonstrated his commitment to reduce training deficiencies by procuring training funds, allowing time off for training, reimbursing staff for books and fees associated with training, developing in-house training, and supporting out-service training. In addition, he has recently appointed a training coordinator who is developing a tracking program to monitor the continuing education of appraisal staff, notifying the Board of completed staff training, and maintaining a current listing of available training courses. The graph below illustrates the increase in resources dedicated to staff training between 1994-95 and 1999.



We commend the assessor for recognizing the importance of continuing education and taking appropriate corrective actions. And, we strongly recommend he continue to emphasize his commitment to fulfill all statutory training requirements. We suggest monitoring training status with regular reports; developing a specific plan for eliminating the training deficiencies of individual staff members; and, formally setting a goal of advanced certification for all appraisers and auditor-appraisers, both as evidence of professional knowledge and as a means of minimizing future training needs and expenses.

COMPUTER SYSTEMS AND OTHER TECHNOLOGY CHANGES

In our previous assessment practices survey, we noted that the assessor's computer system should be upgraded to a fully integrated system that would provide a database driven system for use by not only the assessor, but the auditor-controller and the tax collector as well. We found that the county's mainframe system permitted the assessor's office only limited access to other agencies' files. The assessor is aware of the system's limitations that resulted in deficiencies in data collection, retention, and appraisal documentation.

System deficiencies in coordination between county agencies also caused lengthy delays in the completion of simple actions. As an example, it required 60 to 90 days from initiation of a correction by the assessor's office to the mailing of a refund check or generation of a new tax bill by the county auditor or tax collector.

Both the former and current assessors requested county funds for upgrades to the computer system. In fiscal year 1994-1995, county funding was provided to begin the planning and development stages of a new property assessment, valuation, collection, and revenue distribution system that would integrate and enhance the functions and business processes of the clerk-recorder-assessor, auditor-controller, and tax collector-treasurer. The four-phase project was named "START," and, when completed, will replace the existing mainframe system with client-server technology. It is anticipated that the new system will be operational by October, 1998.

The three county agencies' coordinated efforts to identify existing problem areas and common functional requirements collectively proposed a new system to meet their needs and to integrate the functions of valuation, assessment, taxation, and billing. The assessor and his staff, working with the auditor-controller and the tax collector, analyzed a number of software packages designed for property tax use. They eventually decided on in-house development and proceeded to secure funding for a complete system that would serve all three agencies.

Previously, appraisers and auditor-appraisers individually developed all personal computer (PC) applications. The current assessor added four programmers to his staff to develop components of START, together with interim or "bridge" PC application programs for use in assessment functions. The bridge programs include usable databases in property information systems (PIP), appraiser worksheets (AWS), fictitious business names (FBN), and multiple claims listing for exemptions (MCL). Recent hardware acquisitions provided one PC for each assessor's staff member.

With the addition of programming staff, a comparable sales search program for residential properties was developed. Using property transfer information downloaded daily from the mainframe computer and property characteristics in the existing database, staff appraisers can now search for and analyze sales comparables, document values for residential properties using the standard FNMA or “Fannie Mae” appraisal format, and generate spreadsheet reports. A similar comparable sales search program has been prepared for appraisal of commercial properties, but it was not fully operational at the completion of our survey fieldwork. Staff also anticipates an assessment appeals database to be operational in the near future.

START relies heavily on PC’s using a Windows operating system and is designed to be independent of the county’s mainframe computer. When fully implemented, START will replace all mainframe functions, and, as a result, mainframe applications development and modifications have ceased.

Final costs for hardware and the development and implementation of START are estimated between 1.2 to 1.8 million dollars. The county budget provides the bulk of the funding, but the assessor has allocated about \$170,000 from PTAP funding (mentioned elsewhere in this report) for these technical improvements.

We noted other changes in the working technology of the Santa Barbara County Assessor’s office. With the addition of a LAN (local area network) technician to the assessor’s staff, the LAN was rewired to accommodate new equipment, conversion to Microsoft Office software, and newly purchased PC’s.

Mapping

The assessor’s mapping section was included in the technical modernization as well. All mapping archive files, consisting of 4,005 maps, have been scanned, recorded on CD-ROM disks, and are now accessible to the staff over the local area network on PIP, the assessor’s property information system.

The assessor’s office obtained computer-assisted drafting (CAD) software in 1991. AutoCAD software, the industry CAD standard for computer assisted drafting, was installed for drafting new maps. Softdesk’s CadOverlay is used to make the needed changes to existing maps caused by parcel splits and combinations. To date, staff have translated about 20 percent of all maps into AutoCad format.

Geographic Information Systems (GIS)

The assessor’s office is designated the county’s lead agency for geographic information systems (GIS). This responsibility includes the installation of a system that gathers statistical information from separate agencies or departments and consolidates it into a single database that is referenced and linked to the assessor’s parcel map system.

In Santa Barbara, the offices of county assessor, clerk, recorder, and registrar of voters have been merged into one department. All these offices, as well as other county agencies, will access the same system and benefit from the consolidation, standardization, and availability of assessor's property data on the single system that GIS provides. In return, data contributed by the other departments will benefit assessment functions as well. For example, the parcel databases will eventually make available to the appraisal staff zoning information, data from electronic voters' precinct maps, and death certificate information from the recorder's office.

We commend the assessor and his staff for their efforts in justifying and installing a GIS system that will provide an easily accessible database, benefiting not only the assessor's office, but a number of other county agencies as well.

ASSESSMENT APPEALS

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution, which provides that the Legislature shall determine the manner and procedure of assessment appeals. Revenue and Taxation Code sections 1601 through 1641.1 are the statutory references guiding county boards of supervisors in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules³ 301 through 326 regarding assessment appeals.

The number of assessment appeals has steadily and dramatically increased during the California economic recession and the resulting decline in real estate values. Most of this increase in filings is based on section 51, which requires that real property--with a few exceptions--be annually assessed at the lower of its factored base year value or the current market value. An owner of property who believes that the current market value is less than the factored base year value is likely to request an assessment review. A review that does not satisfy the owner is likely to prompt a formal assessment appeal. For more information on section 51 assessments, refer to the "Declines in Value" section of this report.

Santa Barbara County appeals have increased in number from 581 in 1993 to 1,268 in 1996. As of March 1, 1997, slightly over 1,000 taxpayer appeals were outstanding. The assessor processes 19,000 section 51 reviews each year. As market values increase over the next three years, the assessor anticipates that many of these 19,000 property values will be returned to their higher factored base year value. In turn, it is possible that taxpayers who do not agree with this decision will then file an assessment appeal.

³All Property Tax Rule references pertain to Title 18, Public Revenue, California Code of Regulations.

Approximately 52 percent of the appeals are settled through stipulation. In the fiscal year 1996-97, 31 appeal cases were heard in 10 assessment appeal board hearings. In the fiscal year 1997-98, 38 cases were heard in 11 hearings.

For our current review, we examined 33 assessment appeal files, including four cases that were heard before the appeals board. In every appeal case we reviewed, the assessor's appraisal was well documented, utilized commonly accepted appraisal methods, and reflected values that were well supported by market data. In the four appeal cases that had gone before the board, the board upheld the assessor's value in each case.

Funding provided through the PTAP program has allowed the assessor to allocate more resources to assessment appeals. The assessor is meeting the PTAP performance objective, and the appraisal staff is working closely with the Clerk of the Board to improve tracking, scheduling, and handling of assessment appeals.

LOW-VALUE PROPERTY EXEMPTION

Section 155.20 authorizes the county board of supervisors to exempt real property with a base year value, and personal property with a full value, so low that, if not exempt, the total amount collected in taxes, special assessments, and any applicable subventions is less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceeds the funds collected, and establish the exemption level uniformly for different classes of property. The full value exempted may not exceed \$5,000 (effective January 1, 1996). This limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned convention or cultural facility, as described in section 155.20 (b)(1).

The Santa Barbara County Board of Supervisors has not adopted a low-value property exemption resolution. The collective revenue resulting from low-value assessments, such as boats and manufactured housing accessories, is sufficient to justify the cost of assessing the property and collecting the taxes.

DISASTER RELIEF

Section 170 authorizes the county board of supervisors to adopt an ordinance to allow tax relief on qualifying property that has been damaged or destroyed by misfortune or calamity. The ordinance may be limited to a specific occurrence for property located in an area proclaimed by the Governor to be in a state of disaster, or the board of supervisors may adopt a continuing ordinance that allows the assessor to reassess any damaged or destroyed property for any owner of qualified property.

Under section 170, property tax relief is provided for the owner of any taxable property whose property suffers damage exceeding \$5,000 without his or her fault in a misfortune or calamity. The section also prescribes procedures for calculating value reductions, applying for relief, enrolling the value of the repaired or restored property, and so forth.

Santa Barbara County has not adopted a continuing ordinance under section 170. One specific disaster ordinance has been passed between 1991 and 1996. In March 1995, massive flooding in Santa Barbara severely damaged both residential and commercial sections of the city. This disaster ordinance applied only to properties damaged by the floods and specified a limited time period for filing claims. Our review found that the assessor's staff correctly followed section 170 guidelines, and taxpayers received prompt and fair treatment.

SUGGESTION 1: Request that the board of supervisors pass a continuing ordinance that grants disaster relief to qualifying property owners.

In the absence of a continuing disaster relief ordinance, the assessor's staff uses the provisions provided in section 51(c) of the Revenue and Taxation Code to revalue property that is damaged or destroyed by misfortune or calamity. Under these provisions, the reduction in value is a lien date valuation, rather than an event date valuation.

The purpose of section 170 is to afford financial relief to an owner of property that is physically damaged or destroyed through misfortune or calamity. It is a state-approved benefit that could be extended to all the property owners of Santa Barbara County.

While the county board of supervisors has shown a willingness to grant relief for major disasters, we believe that relief should also be granted to qualifying taxpayers whose property has been damaged or destroyed by individual instances of misfortune. Based on the experience of other counties, the annual financial impact on Santa Barbara County would be minimal; however, it can be a major assistance to individual taxpayers.

We suggest the assessor request the board of supervisors adopt a disaster relief ordinance that would grant property tax relief to any qualifying disaster. After adoption of such an ordinance, we further recommend that the assessor establish a written procedural policy for the granting of tax relief. This procedural policy should be distributed to the members of the appraisal staff for immediate implementation.

ASSESSMENT ROLL CHANGES

Pursuant to section 4831, roll changes or corrections can be made when an error is discovered after the assessment roll is completed and delivered to the auditor. The correction may be made any time after the roll is delivered to the auditor but shall be made within four years, with one exception, of the making of the assessment that is being corrected. The Santa Barbara County Assessor processed about 5,000 roll changes for the 1996-1997 roll year. Of these, 3,000 were on the secured roll and 2,000 were on the unsecured roll.

Roll changes for real property originate with the appraisers who discover the need for a correction. The *Assessment Roll Correction Worksheet* is located in the computer data bank and is easily accessed by the appraisers. The appraiser simply fills out the required data fields on the screen and prints the completed document.

The worksheet is routed to an operations clerk who inputs the corrections into the computer system. Current year roll corrections can be sent to the auditor-controller's office through the on-line computer system network. For a prior year roll correction, a pink roll change form must be manually completed and sent to the auditor since the current computer program is not able to handle prior year corrections. As is required by section 533, any escaped assessments for a prior year are entered on the current year roll and the roll is noted with the applicable year.

The creation and mailing of the proposed escaped assessment letters are also completed at this time. These letters are only sent when there is an increase in value. The letters, titled "NOTICE OF PROPOSED ESCAPE ASSESSMENT," are form letters that clearly display the year of escaped assessment, classifications of property, values, and a person to contact if there are any questions concerning the proposed assessment. Letters are sent out immediately and the roll changes are held for 12-14 days before being forwarded to the county auditor-controller.

We reviewed a random sample of secured roll corrections processed in the last two (1995 and 1996) fiscal years. All procedures and citations appeared to be consistent with the Revenue and Taxation Code. Overall, the assessor's system appears effective for the discovery, preparation, notification, and processing of assessment roll changes.

STANDARDS AND QUALITY CONTROL

Oversight of valuation activities is the responsibility of division managers and appraisal crew leaders. Currently, real property appraisal crews are organized, and workload allocated by, geographic area and property use type. This will change however, as a reorganization of crew assignments was under way at the time of our fieldwork for this survey.

With this reorganization, there will be five appraisal crews among the three offices. Each crew will be assigned to one or more of the following property use-types: single family residences, condominiums, manufactured homes, custom residential, agriculture, commercial, and industrial. This reorganization is expected to enhance appraisal uniformity and consistency within each property type, and among headquarters and the two field offices. Commercial crews will consist of both real property appraisers and auditor-appraisers, thus improving coordination between the business property division and commercial real property staff in the appraisal of improvements and taxable business property.

Another effective way to ensure appraisal consistency is to develop and maintain current procedures manuals. Procedures manuals provide specific standards and uniform procedures to assist the assessor's staff in the preparation of appraisal reports, as well as other technical work products. Up-to-date manuals can help ensure that the work is consistent with approved policies and practices.

SUGGESTION 2: Develop and maintain a formalized written procedures manual for the real property division.

The Santa Barbara County Assessor's Office has a comprehensive *Employee and Operations Manual* and *Business Division Procedure Manual*. However, the real property division does not have a formalized procedures manual. We found that, although some written memorandums were used as guidelines for appraising, there are no formal written procedures.

The real property division manager meets regularly with crew leaders and discusses various appraisal procedural issues on an as-needed basis. The information is then summarized into memorandums. These memos are placed in a binder organized by topic and date and distributed to each crew. We found that not all of the appraisers were aware of the binder's existence. Although some of the memos are good reference material, they only cover the basic guidelines needed for appraising and are not a substitute for a comprehensive procedures manual.

We recommend that the assessor develop and maintain a formalized written procedures manual for the real property division. A procedures manual would help promote standardization among field offices and can be used as a training tool for new employees. In addition, each crew leader should maintain an up-to-date copy of the manual and make it accessible to all staff.

REAL PROPERTY VALUATION AND ASSESSMENT

THE APPRAISAL PROGRAM

INTRODUCTION

Under California's present property tax system, a county assessor's program for assessing real property includes the following elements:

1. Revaluation of properties that have changed ownership;
2. Valuation of new construction;
3. Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land; and
4. Annual review of properties having declining values ("Proposition 8" assessments required by section 2(b) of article XIII A).

The statistics derived from the CPTD's assessment survey of the 1994-95 Santa Barbara County local assessment roll indicates the overall quality of the roll for that year. CPTD's sampling of 260 roll entries included 240 assessments of real property other than trade fixtures. Of these, 49 were appraised by CPTD staff at values different from the values determined by the assessor's appraisal staff (23 were underassessed and 26 were overassessed). These sample item differences, expanded by statistical measurement to represent all real property assessed on the local 1994-95 local roll, indicates underassessments of approximately \$175,261,225 and overassessments of approximately \$356,512,412.

The significance of these statistics is limited by the purposes for which they were created. In order to determine the total roll value, random samples were selected from three value strata. Expansion factors are then derived by dividing the number of roll units in a value group by the number of samples selected from that group. This is a statistical technique that is designed to accurately estimate the total roll value from a few sample appraisals. However, since the expansion process targets the total roll rather than its components, we have less confidence in these expansion factors when they are applied to small groups within the total roll. Consequently, we use the expanded figures, referred to above, primarily to indicate areas worthy of study.

For this reason, readers are advised that the projected underassessments and overassessments presented elsewhere in this report may not agree with the figures just presented. This could happen because one individual sample item may contain offsetting errors. The net "bottom line" differences can conceal the fact that there may have been two significant value differences in the

appraisal, one positive and the other negative. We analyze line item differences rather than “bottom line” differences in order to accurately isolate the problem involved.

CHANGE IN OWNERSHIP

Document Processing

Deeds and all recorded documents, including PCOR’s (Preliminary Change in Ownership Report), are picked up daily from the recorder’s office, copied, and sorted numerically by a title transfer clerk. The assessor’s parcel number is verified with the legal descriptions printed on the deed, and a check digit is added to the parcel number. Those deeds that have incomplete legal descriptions are forwarded to the mapping section for complete verification.

Once parcel numbers are verified by mapping, the deeds are returned to the title transfer clerk who places the documents in a daily work divider. The title transfer specialist reviews each deed to verify the change in ownership. At the time of our survey, the title transfer specialist reported an eight-week backlog of unworked documents. Management is aware of the backlog and an effort has been made to train an additional employee to assist the title transfer specialist.

Each transfer is assigned a specific letter code according to the type of transfer. The four letter codes are as follows:

- “T” represents a straight transfer with a PCOR received or a possible base year value transfer by homeowners 55 years of age and older (Section 69.5 of the Revenue and Taxation Code, commonly referred to as Proposition 60).
- “Y” represents a straight transfer without a PCOR.
- “W” represents an unrecorded transfer (i.e. death or LEOP).
- “F” represents a parent to child transfer (section 63.1 of the Revenue and Taxation Code).

All paperwork is forwarded to data entry, where the information is inputted into the computer system. Change in Ownership Statements (COS’s) are automatically generated by the computer system based on the assigned letter code. Labels are also printed for each parcel. Each label contains information about the transfer such as date of transfer, transfer stamp amount, and new owner’s name.

PCOR’s and deeds are separated and deeds are filed in deed books. Labels, PCOR’s, and supplemental sheets are matched by assessor parcel number and sent to the appropriate field office, if necessary. Corresponding appraisal files are pulled and labels are attached to the records. PCOR’s, supplemental sheets, and change in ownership statements are placed in their appropriate files.

In our previous survey, we suggested that a transfer clerk be trained to perform transfer-related functions. The assessor has since created a Title Transfer Specialist position to review and determine all changes in ownership. Additionally, a procedures manual and flow chart have been developed for the processing of transfer documents. Our review of the processing of documents indicated an efficient and effective system. We commend the assessor on the improvements made to the change in ownership program.

Change in Ownership Statements

Section 480 requires transferees of locally assessed real property to file a Change in Ownership Statement (COS) with the county recorder or assessor. It also provides for a penalty for failure to file such a statement within 45 days from the date of a written request by the assessor. Most transferees meet this requirement by filing a Preliminary Change in Ownership Report (PCOR), as authorized in sections 480.3 and 480.4, at the time the document evidencing a change in ownership is recorded.

The Santa Barbara County Assessor utilizes both of these forms. The PCOR is available from either the county recorder's office or the assessor's office. The COS's are automatically produced by the computer system and sent to the taxpayer if a PCOR is not received. A second Penalty Notice COS is sent in the event the first is not received within 45 days. COS's are tracked and penalties assessed to those taxpayers who are not in compliance with the required deadlines.

Transfer of Real Property in Estates of Decedents

The death of a property owner is an event that causes a change in ownership that may require a reappraisal. The timely discovery of a property owner's death is a problem many county assessors face. When these changes in ownership escape detection until after the documents settling the decedent's estate are recorded, it often means costly processing of escape assessments.

In our previous assessment practices survey, we recommended that the assessor obtain a copy of the weekly listing of deceased persons from the recorder's office to identify possible changes in ownership. The assessor implemented this recommendation but found the method not cost effective since the listing contained many names of people who did not own real property in the county.

As an alternative, a change in ownership statement relating specifically to the death of a real property owner was developed. This form, along with an attached cover letter explaining the need for completion of the questionnaire, is distributed to probate, will, and trust attorneys. The form reads easily and makes reference to the reassessment exclusion for parent to child transfers. The assessor's staff indicates that there has been a good response from participating attorneys.

Legal Entity Ownership Program (LEOP)

Since 1983, the Legal Entity Ownership Program (LEOP) has informed county assessors of changes in control of legal entities owning real property in California. The LEOP unit is part of the Policy, Planning, and Standards Division of the BOE's Property Taxes Department. The

LEOP unit learns of these unrecorded changes in control occurring through stock purchase or acquisition from responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB). Typically, these types of changes in ownership are not recorded at the local county recorder's office and may go undiscovered by the county assessor's office.

The LEOP unit gathers this preliminary information from the FTB and sends the acquiring and acquired entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all real property parcels involved. Responses are accumulated, sorted by county, and forwarded to the appropriate assessors' offices. This provides the assessor's staff important information on unrecorded transfers of real property that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly check the parcels listed to determine with certainty which are subject to reappraisal.

In our last survey, we recommended that the county develop and implement procedures for processing LEOP notices of change in control. The assessor's office now has a policy for handling all LEOP notices. Each notice is routed to the title transfer specialist for review and determination of change in ownership. If a change in ownership is confirmed, the LEOP letter is stamped, filed in a LEOP book, and all information is routed to the appraisal staff for reappraisal.

We obtained a listing of LEOP notices that had been forwarded to the Santa Barbara County Assessor's Office and cross-checked this listing with the corresponding appraisal records. In all instances, we found that the affected parcels had been reviewed and reappraised as necessary. We commend the assessor and his staff for initiating this policy change.

NEW CONSTRUCTION

Building Permit Processing

Building permits from all issuing agencies are sent to the assessor's Santa Maria field office. A technician logs in the permits and forwards them to the appropriate branch office. Technicians in the individual offices double-check the assessor's parcel numbers and screen the permits as to obvious assessable and nonassessable new construction. Questionable permits are directed to the supervising appraiser for further determination and assignment.

The technician creates a computer record for assessable permits and mails a questionnaire to the property owner. The record has data field columns that indicate: permit number, parcel number, appraised (yes or no), value, no change in value, incomplete, no start, and valued with the transfer. A supplemental sheet is created for each permit.

An appraisal clerk obtains the appraisal record, enters the permit data on the appraisal record, inserts the permit and supplemental sheet into the appraisal file, and files it in the to-be-worked file.

We tracked 32 randomly selected permits obtained from various permit-issuing agencies. In every instance, the permits had been properly processed and the new construction valued and enrolled appropriately.

Our prior survey suggested the assessor improve the taxpayer self-reporting program for the assessment of new construction. In our current review, we noted the self-reporting program appears to be working effectively and taxpayer compliance with the questionnaire is good.

Escaped New Construction

Eleven of CPTD's sampled assessments involving new construction disclosed instances of escaped new construction. All of the escaping items were minor and were constructed without a building permit.

In the last few years, serious backlogs in permit processing and new construction appraisals have resulted in significant delays in the enrollment of new construction. Funds made available from the PTAP program have made hiring additional staff possible, thereby reducing the backlog problem. The assessor anticipates that by April 30, 1998, the backlog of escaped new construction will be eliminated.

Documentation

SUGGESTION 3: Improve documentation on appraisal records of cost factors used in the cost approach to value.

Our prior assessment practices survey recommended the county assessor improve the quality of new construction appraisals by, among other things, insisting on adequate documentation of cost sources used to value new construction. In our current review, the files we examined still lacked much of the necessary documentation.

Identifying the sources of unit costs used when the cost approach is utilized facilitates appraisal review and provides the means with which to defend a valuation. Written appraisal procedures, detailing what is appropriate documentation, would improve the quality and uniformity of appraisals. Currently, the assessor's office lacks formalized written procedures, as was discussed in an earlier section "Standards and Quality Control."

We suggest the assessor establish a standard for appraisals that includes documentation of cost factors used in the cost approach to value.

Tenant Improvements

The assessor's staff discovers tenant improvements through building permits, questionnaires, business property statements, audits, and field inspections. We found good communication and coordination between the real property and business property divisions with regard to the assessment of tenant structural improvements.

When either division discovers assessable tenant improvements, the appropriate assessee, either the tenant or building owner, is determined. A transmittal form sent between the divisions notifies each one of the appropriate assessee and improvement to be valued. This notification process ensures that tenant improvements are not being assessed both to the tenant and the building owner (double assessment), or escaping assessment.

We examined the files of seven properties that had tenant improvements as indicated by the building permits. In each case, the form was transmitted between the divisions, an appraisal decision made, and the property assessed.

As part of the proposed reorganization, the assessor plans to combine real property commercial appraisers and business property auditor-appraisers into a commercial property section. This combination will allow for even better coordination and consistency in the appraisal and assessment of tenant improvements and business property.

Supplemental Assessments

Value added for the installation of new leasehold improvements is subject to the provisions of section 75.11. Supplemental assessments must be levied for real property value increases due to change in ownership or completion of new construction, whether the property is unsecured or secured.

RECOMMENDATION 2: Issue supplemental assessments for all structural leasehold improvements.

We found that supplemental assessments are not being levied for value added by newly constructed structural leasehold improvements, when those improvements were assessed to the tenant on the unsecured roll. Supplemental assessments were levied for new construction when assessed on the secured roll.

We recommend that supplemental assessments be levied on all new structural leasehold improvements, whether they are assessed on the secured or unsecured tax roll.

DECLINES IN VALUE

Section 51 requires the assessor to value taxable real property at the lesser of either its base year value, adjusted annually for inflation, or the current market value, as defined in section 110.

Whenever a property's current market value declines, for any reason, below its factored base year value, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value returns to the factored base year level. When the property's market value exceeds the factored base year value on the lien date, then the factored base year value resumes as the taxable value.

Property values in many areas of California have declined or stagnated in the past few years due to economic conditions. As a result, county assessors have had to make decline in value reductions in unprecedented numbers. The Santa Barbara County Assessor has been no exception.

CPTD's sampling of the Santa Barbara County 1994-95 assessment roll included 60 sample items that were reviewed for declines in value. In 38 sample items, CPTD agreed with the assessor's decision to lower values or to enroll the factored base year value. In 25 sample items, the CPTD appraiser differed with assessor's staff in their opinions of the current taxable value of the real property.

We do not view these value differences as a fundamental problem. The important fact is that the county has a program to identify areas where declines in value have occurred and has an active program to identify, track, and annually adjust the current market value until such time as the current market value exceeds the factored base year value.

While the assessor does rely on taxpayer initiated requests for some value reductions, the majority of the section 51(e) assessments that are currently tracked are the product of a sales analysis program initiated with the 1992-1993 roll year. The 1997-98 assessment roll contained about 20,000 parcels identified as having experienced a decline in value since the 1988 lien date. Once placed on a decline status, all properties are reviewed annually thereafter.

Under this program, staff screens change in ownership transfers by date of sale for evidence of declines in value. Once identified, the parcels are entered into the database and tagged as section 51(e) assessments. Values are adjusted by area each year on review, and tracked parcels in each defined area are adjusted in accordance with known rates of decline or recovery. Condominiums, apartments, hotels, industrial, office, and retail properties are analyzed and tracked, in addition to single family residential properties.

The assessor's staff compile data from property transfers, real estate data contained in an annual economic forecast made by the University of California at Santa Barbara, the knowledge of individual staff appraisers working in each geographic area, and other real estate data sources. Using the assembled data, staff annually determine trend factors for each of seven geographic areas. Assessments of those properties tagged in the database as section 51(e) assessments are calculated using the appropriate factor for location or use type and enrolled for the current assessment year.

Currently, property values are recovering from recessionary economic conditions. The assessor's staff, in monitoring the recovery, restore the factored base year value when it is less than current market value.

We believe that the Santa Barbara County Assessor's program for discovering and monitoring declines in value is a good one, and in full compliance with section 51 requirements.

SPECIAL PROPERTY TYPES AND PROCEDURES

CALIFORNIA LAND CONSERVATION ACT PROPERTIES

An agricultural preserve is established by contract between a landowner and a city or county pursuant to the California Land Conservation Act of 1965 (Williamson Act). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g. hunting), and are assessed at the lowest of this restricted value, the current market value, or the factored base year value, as defined in section 110.1.

For the 1997-98 lien date, Santa Barbara County had 700,000 acres encumbered by California Land Conservation Act (CLCA) contracts covering over 2,000 parcels. Agriculture is a major industry in the county with revenues of over \$509 million in 1994. Primary use types for CLCA property in Santa Barbara County are nursery products, grazing, dry farm land, irrigated croplands, and orchards. Nearly all of the orchards are either citrus or avocados.

The agricultural preserve assessment program is computerized, which includes the current parcel status, calculation of values, and the mailing of questionnaires on a three-year cycle. Processing of renewal contracts is now automated, as are vineyard calculations.

Our sampling of the 1994-95 assessment roll included three sample items in which the assessor's procedure for valuing CLCA land values included segregating an area of restricted land, labeling it "farmstead," and applying a separate land rental to it. The assessor's "farmstead" assessment methodology was incorrect.

Farmsteads are generally one to five acres of land for a residence and additional improvements used in the farming operation, such as office, shops, barns, corrals, and sheds. For CLCA valuation, the appraiser must determine if the farmstead is part of the homesite, such as a horse barn in a citrus or vineyard operation, in which case the land value would not be restricted. If, however, the segregated "farmstead" contributes to the income of the agricultural operation, the land value is restricted and should be included in the total farm acreage. Separate land rental values on CLCA properties may apply for compatible use sites and commercial enterprises.

Our previous survey recommended the assessor revise procedures for determining capitalization rates, expenses, improvement values, and base year values. Our current review found portions of these recommendations have been implemented into the CLCA assessment program. Reasonable risk rate components are used in the capitalization rate and new homesites are enrolled with the proper base year.

RECOMMENDATION 3: *Review the staffing needs of the agriculture valuation program.*

Geographically, Santa Barbara is a large county, over 70 miles from the northern to southern border. It has over 2,000 agricultural parcels and over 1,000 CLCA contracts. One appraiser in

the Santa Maria field office handles the county's agricultural valuation program. Given the county's geographic size, the extent and diversity of agriculture, and the complexities of agricultural appraisals, the agricultural valuation program may be understaffed.

The Board's sampling of the county's 1994-95 assessment roll discovered a considerable amount of escaped new construction on agricultural land. The escaped new construction had not been enrolled by the time of our current survey fieldwork. This is partly due to a communication and coordination problem between the main office and field office.

Although the assessor has incorporated timesaving elements into the agricultural valuation program, it appears that the section is understaffed to the point that fieldwork necessary for data gathering and physical inspections has suffered.

We recommend the needs of the agricultural valuation program be reviewed to determine the appropriate staffing levels necessary to maintain an effective and consistent agricultural valuation program.

TAXABLE GOVERNMENT-OWNED PROPERTIES

Article XIII, sections 3 and 11 of the Constitution of the State of California, generally exempts from taxation any property owned by local governments located within their own boundaries. However, if a local government agency owns land and improvements located outside the agency's boundaries, these properties may be taxed if they were subject to taxation at the time of acquisition. Commonly referred to as section 11 properties, these properties must be assessed in accordance with procedures specified by section 11.

Taxable government-owned land must be valued at the lowest of (1) the 1967 assessed value multiplied by a factor annually supplied by the State Board of Equalization; (2) its adjusted base year value; or (3) an assessment based on current fair market value.

Improvements that were taxable when acquired by the government agency, or their replacements, must be assessed at the lowest of (1) current market value; (2) full cash value as defined by article XIII A; or (3) the highest full value ever used for taxation for the replaced improvements. New improvements built on section 11 land after acquisition by a government agency are exempt.

In our previous survey, we noted that responsibility for section 11 assessment was spread among all district offices depending on geographic location. Consequently, section 11 assessments were found to be inconsistent and, in some instances, incorrect.

In our current review, we noted that determination of full cash value is still made in the various field offices but enrollment of the assessed value has been centralized. An appraiser in the Lompoc field office calculates the 1967 assessed values adjusted by the factor supplied by the

state and the article XIII A base year factored values, compares them with the full cash value, and enrolls the lowest of the three annually determined values.

We found only one error in which a grazing lease on section 11 land was subject to a possessory interest assessment. Section 11(f) exempts a lease for agricultural purposes on land that is owned by local government and subject to taxation. Except for this one error, the enrollment procedures are generally correct.

SUGGESTION 4: Document the appraisal records to show the basis of current market value estimates, including date of appraisal, for taxable government-owned property.

The assessor's staff makes annual market value determinations for section 11 lands. However, there were no remarks or documentation in support of these stated values on any of the section 11 parcel records.

Standard appraisal practice requires proper documentation substantiating a value estimate. Without documentation, the validity of an assessment cannot be easily verified or defended.

We suggest the assessor's staff document compliance with the provisions of section 11 by outlining the valuation approach used to determine the current market value and supporting data such as costs, comparable sales, income, and capitalization rates on the appraisal record.

POSSESSORY INTERESTS

A taxable possessory interest (PI) exists whenever a private party has the exclusive right to the beneficial use of real property owned by a public agency. In the Santa Barbara County Assessor's Office, two staff appraisers are responsible for the assessment and enrollment of possessory interests. An auditor-appraiser values the PI's for oil companies and oil producing properties. A real property appraiser is responsible for 2,196 taxable PI's of all other types, with a total assessed value in excess of \$225,000,000. This PI appraiser annually contacts 35 public agencies that own real property in Santa Barbara County to obtain current information on new or changed tenants and rents and to ensure that any new PI's are timely assessed.

In our 1994 survey, we noted that the assessor's possessory interest valuation program had improved but that the PI appraiser had no formal training in the assessment of possessory interests. Our current review found that the PI appraiser has completed the recommended PI training, and there have been additional improvements to the PI assessment program.

Various agencies of federal, state, county, and city governments, as well as school, water, sewage, utility, and fire districts own a significant number of parcels in Santa Barbara County. In addition, public employee retirement systems may own taxable real estate investments that are located outside their local governmental agency's jurisdiction. To assist the assessor in the

discovery of taxable possessory interests, it is necessary for the assessor's staff to identify the specific governmental agency that owns a given parcel.

SUGGESTION 5: Obtain the names of the specific federal and state agencies that manage the properties currently listed as owned by "USA" and "State of California."

In our previous survey, we suggested the assessor identify the specific federal or state agencies that manage properties listed as owned by "USA" or the "State of California." In our current review, we found these properties still have not been identified by specific agency name, and therefore we repeat our previous suggestion.

Without the administering agency's name and address, the appraisal staff are unable to direct inquiries or request information regarding possessory interests on these parcels. We suggest that the assessor's staff, on a time available basis, obtain the names of the specific agencies. This will facilitate the discovery of potential possessory interests that may be currently escaping assessment.

Our review of PI assessments showed that the assessor's staff is conscientious in their effort to improve the possessory interest assessment program. For the most part, the staff applies proper valuation techniques and now tracks and makes most of the routine PI calculations on a personal computer.

Even though the PI program is generally satisfactory and well-maintained, we noted some areas in which improvements are necessary to fully comply with statutory requirements.

RECOMMENDATION 4: Revise possessory interest assessment practices by: (1) reviewing private uses of fairgrounds and assessing taxable possessory interests; and (2) revising the valuation of grazing leases by using agricultural capitalization rates, market rents, and animal unit months (AUM).

Review private uses of fairgrounds and assess taxable possessory interests

There are two fairgrounds in Santa Barbara County. The 37th District Agricultural Association (37th DAA) operates the fairgrounds in Santa Maria, and the 19th District Agricultural Association (19th DAA) operates the Earl Warren Fairgrounds in Santa Barbara. Both stage annual fairs lasting several days and also rent facilities to groups and individuals, both public and private, for interim uses during the rest of the year.

Our research indicates there are a number of private uses of county fairground land and buildings that are sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. None of the uses by the fair's concessionaires or exhibitors have been assessed.

Although renters sign contracts for the right to use and occupy fairground facilities on a year-to-year basis, most concessionaires are permitted to return each year. Many renters have returned for several consecutive years, indicating that there is little likelihood of termination. Since there is sufficient evidence to show a history of recurrent possession by concessionaires and exhibitors, the possessors have a taxable possessory interest in the fair property as outlined in Property Tax Rule 22 (b)(2). We believe that the rents collected by Santa Barbara County from concessionaires can be capitalized into substantial possessory interest assessments.

During a normal operating year both fairgrounds lease facilities, or portions of their grounds, to private individuals and organizations. The typical term of such leases may be two days or less for dances, pet shows, dealer shows, and a variety of other uses. Some of the leases will not qualify as taxable possessory interests because they may be community sponsored projects, or may qualify for exemption from taxation as an educational activity. Other leases will not qualify because they are a single event with no history or likelihood of recurrence.

However, it is apparent that there are a number of interim uses at the fairgrounds that meet the standards of continuity because of their history of recurring use. Some of the organizations have been conducting their events for a number of years.

We recommend that the assessor's staff review all private uses at the Santa Barbara and Santa Maria fairgrounds, for the county fair and for all interim uses, to determine their assessability as taxable possessory interests. Those judged to be possessory interests should then be enrolled and escape assessments issued as necessary.

Revise the valuation of grazing leases by using agricultural capitalization rates, market rents, and animal unit months (AUM)

Possessory interests are created when a governmental agency leases grazing rights or land to private parties for agricultural uses. The Santa Barbara County Assessor's staff capitalize the contract rents paid for grazing rights into a possessory interest value. While the technique is correct, the contract rents are generally well below economic or market levels. Rental data for fee owned grazing and agricultural land in Santa Barbara County indicate that these grazing rights in Santa Barbara County are underassessed.

Also, the 12 percent capitalization rate used to convert the grazing rents into a possessory interest value is the same rate used to capitalize commercial and industrial property rents. This rate is considered excessively high when used to capitalize grazing rents and results in a diminished possessory interest value. Grazing land rental income is generally used to derive yield rates that are considerably lower.

We recommend that the assessor revise the current policy regarding valuation of grazing rights possessory interests by using market rents and a yield rate component that is derived from market rents and sales of properties with similar uses. Another basis of reference for the yield rate component is the current interest rate lending institutions use on agricultural lands with similar uses.

The animal unit (AU) and animal unit month (AUM) are the basic units of measurement used to express the amount of feed required to maintain one animal unit for one month, or the number of acres required to produce the feed required to maintain one animal unit for one month. Grazing permits usually quantify the carrying capacity of the leased parcel in AUs or AUMs. In California, feed production and the resulting carrying capacity varies broadly depending on location, climate, type of vegetation, and quality of soil.

Because contract rents for grazing permits are often determined by formula rather than economic or market conditions, they must be verified by market data. Animal units and animal unit months form the most universally accepted unit of comparison for compilation of market data. Economic rents that are extracted from rental data and sales of grazing land are usually expressed in terms of AUMs.

We recommend that assessor's staff use AUs and AUMs as unit measures of value. Use of these universal units of measurements and value comparisons would facilitate determinations of carrying capacities and valuations of grazing possessory interests.

Vandenberg Air Force Base

Vandenberg Air Force Base (AFB) is located in northern Santa Barbara County. Originally commissioned as a U.S. Army installation in 1941, known as Camp Cook, it contains a variety of possessory interests that are subject to taxation under article XIII of the California Constitution. Real property located within an area to which the United States has exclusive jurisdiction concerning taxation and acquired by the Federal Government prior to September 17, 1939, are designated "federal enclaves." Property Tax Rule 20(b) excludes from taxation any possessory interest in such areas. Many military installations or bases are designated federal enclaves, but Vandenberg AFB is not and private uses of Vandenberg AFB constitute taxable possessory interests.

Satellites in polar orbit have the unique ability to cover the Earth's entire surface, and Vandenberg AFB's location, on the extreme western point of the California coastline, makes it the only installation in the continental United States able to launch satellites into such orbits. Demand for commercial launches of satellites for communications, weather, and other purposes that require polar orbits is sure to increase.

A military installation presents a unique challenge in the discovery of taxable possessory interests. Military operations, the personnel assigned to the installation, upkeep and maintenance, or even the unique purpose of a given installation, require the presence of a wide variety of civilian services, vendors, and contractors. A number of military units or sections, each working

independently, may have authority to contract leasing or permit use of grounds and facilities. Military concerns for national defense issues may also hinder the assessor from obtaining access to information regarding leased facilities housing technologically advanced equipment processes, equipment, or fixtures. All these factors may slow the discovery of assessable possessory interests at a military installation.

A substantial number of defense contractors occupy these government-owned facilities, some providing services to the Air Force. Some users enter into long-term leases and make substantial modifications to existing facilities by installing fixtures and tenant improvements. Other civilian users obtain permits to use government constructed Satellite Launch Complexes (SLC's, often called "slicks"), some with space shuttle launch capacity, to launch communication and weather satellites.

Leased facilities may include substantial levels of fixtures, termed REal Property Installed (REPI), installed by the Air Force at government expense and available to the lessees at nominal rents. In some cases, the lessee may make changes or additions to these government installed fixtures.

All things considered, we found that the assessor's staff has done an exemplary job of discovery of possessory interests at Vandenberg Air Force Base. However, we noted areas where more must be done.

There is little coordination between the real property division and the business property division to determine fixture values that must be included in the PI valuation. The CPTD sampling of the 1994-1995 assessment roll included one sample item that illustrated the difficulty the PI appraiser has in dealing with the REPI. The county appraiser, without coordination or support from the business property division, valued the possessory interest using typical industrial properties in Lompoc and Santa Maria as rent comparables. The county's PI valuation excluded the contribution of the REPI.

In another instance, we found that the Air Force had granted a civilian corporation a 25-year leasehold at a space launch complex and a separate construction site for a separate launch facility. Another civilian corporation holds a permit to launch satellite vehicles from the same SLC. The assessor's staff, while aware of the recent agreements, had not yet obtained copies of either the lease or launch permit at this location.

Staff have also encountered problems obtaining information regarding real property fixtures installed in the leased facilities, not only at this SLC location, but other locations as well. Staff informed us that they have requested that the Santa Barbara County Counsel aid in investigating assessment issues.

We acknowledge the efforts made by the assessor's staff to gather the necessary information to date. We also acknowledge the level of complexity inherent in the nature of the facilities themselves. Some contractual arrangements at these highly complex and costly installations will require analysis to determine whether they create assessable possessory interests.

Determinations must be made as to whether any portions must be segregated from a total value and allocated to a particular lessee or among various users. Further, government installed property must be analyzed for purposes of separating fixtures that are eligible for taxation as possessory interests from government-owned personal property that is exempt from possessory interest taxation.

Complex PI's require extensive coordination between the real property and business property divisions equal to that required for the most complex industrial appraisals. We urge the assessor's staff to improve coordination between the real property division and business division in determining the value of these assessments at Vandenberg Air Force Base. The proposed reorganization of a commercial property section should provide the expertise, communication, and coordination to handle these complex possessory interests.

Analysis of construction costs and specialized requirements of facilities that are found in only two locations in the country may require the expertise of specialists familiar with specifications for these installations. We suggest the assessor consider allocating a portion of the available PTAP funding mentioned elsewhere in this report to obtain consultants familiar with aerospace facilities and the costs associated with their construction.

CABLE TELEVISION

Cable television companies have a possessory interest in real property created by the right to place wires, conduits, and appurtenances along or across public streets, rights-of-way, or public easements contained in a cable television franchise or license.

Section 107.7 prescribes the valuation methods used to value cable television possessory interests. These methods include, but are not limited to, the comparative sales method, the income method (including, but not limited to, capitalizing rent), or the cost method.

The preferred method of valuation is capitalizing the annual rent using an appropriate capitalization rate. The annual rent is that portion of the franchise fee, received by the franchising authority, that is determined to be payment for the possessory interest for the actual remaining term, or the reasonably anticipated term of the franchise or license. Or the annual rent can be an appropriate economic rent.

We reviewed the appraisal files and assessments of three cable television companies doing business in Santa Barbara County. Each of these companies had a change in ownership in the mid-1980's that generated a reappraisal of the possessory interest. Possessory interest values

were determined as described in section 107.7 and were adequately documented. We found one problem in the possessory interest assessment of these cable television companies.

RECOMMENDATION 5: Enroll the base year value of the cable television companies for the appropriate assessment year.

The cable television possessory interest value for each of the three companies was calculated using a discounted cash flow analysis as of the change in ownership event date. These values were added to the assessment roll for the 1989-90 assessment year as the base year values. Since the change in ownership occurred in prior years, the base year values should have been established for the appropriate years and not for the 1989-90 assessment year.

In one example, a cable television change in ownership occurred in 1984. A possessory interest value of \$700,000 was computed as of the 1984 event date and enrolled as a base year value in the 1989-90 assessment year. The correct procedure should have been to enroll the \$700,000 value as of the event date and apply the annual inflation factor prior to enrollment.

We recommend that the assessor enroll the cable television possessory interest values as of the event date for the appropriate assessment year.

MANUFACTURED HOMES

Manufactured homes have been taxable on county tax rolls since July 1, 1980. Under current law, a manufactured home can become subject to local property taxation either because it was first sold new on or after July 1, 1980 or because the owner voluntarily requested conversion from vehicle license fee to local property taxation. The statutes prescribing how manufactured homes must be valued and assessed are sections 5800 through 5843. There are also sections of the Health and Safety and Vehicle Codes that may apply to manufactured homes.

In our previous survey, we recommended the assessor's staff value manufactured homes using a recognized value guide as required by law and to discontinue supplemental assessments when the owner converted from vehicle license fees to local property tax.

In our current survey, we reviewed a random sample of manufactured home appraisal records. Almost all records we reviewed documented the National Automobile Dealer Association's (NADA) Mobilehome/Manufactured Housing Appraisal Guide values as well as the reported sale prices where appropriate. Although few manufactured homes have actually converted to the property tax roll recently, we found the appraisers are correctly valuing those conversions. We commend the assessor for taking action to implement these prior recommendations.

In the Santa Barbara County Assessor's Office, manufactured home appraisal assignments are not centralized in one office or to one appraiser, but are determined by geographic location. Real property appraisers typically value those manufactured homes located in their assigned

geographic areas. This can sometimes result in a lack of uniformity in valuation methods employed by the various appraisers.

Our review of appraisal records indicated that the appraisers in the Santa Barbara City office rely on manual appraisal procedures to value manufactured homes, whereas the field offices of Lompoc and Santa Maria have developed sophisticated computerized programs to assist in the appraisal process.

Despite the difference between the field offices and headquarters, most manufactured homes located on leased lots are valued annually using the NADA guide and appropriate methods as prescribed by law. The appraisal records in the Santa Barbara City office were found to be complete and sufficiently documented.

The computer programs developed in the Santa Maria and Lompoc field offices track values of manufactured homes located on leased land. The Santa Maria office has created a computer program that will compute NADA values. Spreadsheets have also been developed for each manufactured home park that track the prior year roll value, recent sale prices, and current year NADA values for each home. The values are reviewed, compared, and a decision is made as to which value will be enrolled on the following lien date. These spreadsheets also contain the manufacturer's name, the model, square footage, accessories (including garages), and any other information that may affect value.

We found that the NADA values are most typically enrolled. Enrolled values are reviewed and adjusted as needed each lien date. The valuation and review process appears thorough and effective except for two problems involving documentation and tracking of base year values when considering declines in value. The field offices complete most of their appraisal work utilizing their computer database and have failed to update many of the hardcopy appraisal records. We encourage the appraisers in field offices to improve the documentation in the appraisal records by simply printing the screen that lists the appraisal comparables or the completed cost sheet.

SUGGESTION 6: Ensure compliance with section 5813 of the Revenue and Taxation Code when reviewing manufactured home values for declines in value on each lien date.

Values for the majority of manufactured homes located in manufactured home parks are reviewed annually. As was stated earlier, the current market value is compared with the factored base year value and the lower of the two is enrolled.

Section 5813 states in part that, "For each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of: (a) Its base year value, compounded annually since the base year by an inflation factor,...or (b) Its full cash value...."

Due to the nature of manufactured homes, the factored base year value will, in most cases, be higher than the current market value. The lower of the two values must be enrolled on the lien date. We suggest the staff track the factored base year value and compare this value to the current market value each lien date. With the recent expansion of the county database, the factored base year values of manufactured homes should be relatively easy to track.

WATER COMPANY PROPERTY

Water company properties assessed on local tax rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the Constitution), private water companies regulated by the California Public Utilities Commission (CPUC), private water companies not regulated by the CPUC, and mutual water associations. Each type presents different assessment problems.

Municipal water company properties, because they are owned by a local government, are exempt from taxation under article XIII, section 3(b). This includes property owned by city water departments or water districts when located within city limits or district boundaries. When the water system is located outside of the government's boundaries, however, article XIII, section 11 applies. Publicly owned water system property located outside the government agency's boundaries is taxable if the property was taxable at the time it was acquired by the city or district.

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit financial reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return based on the companies' outstanding investment. Because the assessed values of these properties are tied directly to regulated rates, current market value may be less than a water company's factored base year value, making it necessary to annually determine its taxable value as of the lien date.

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. The association when incorporated can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of its members. Corporations organized for mutual purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders or members.

Our prior survey recommended the assessor identify and assess water company properties within Santa Barbara County. We found that water company properties are still not identified or assessed, and therefore we repeat the previous recommendation.

RECOMMENDATION 6: Identify and appraise all water company properties located within the boundaries of Santa Barbara County.

The assessor has no tracking system for water company property identification or assessment, indicating the prior survey recommendation has not been implemented. According to the Santa Barbara County Environmental Health Services, there are over 200 small water systems in Santa Barbara County, including some mutual water companies. We found no appraisal records or other documentation for any of these water systems.

We recommend the assessor direct his staff to identify and assess all taxable water company property located within the boundaries of Santa Barbara County and to maintain adequate and available appraisal records. The county could be losing substantial tax revenue because these water companies are not being assessed. We also advise that water company appraisals for the entire county be assigned to one appraiser for efficient collection and documentation of information, and assessment uniformity.

PETROLEUM PROPERTIES

Santa Barbara County is the sixth largest oil-producing county in the state. Production in 1996 was 4,602,496 barrels of oil. It ranks sixteenth for gas production with 2,040,320 MCF (thousand cubic feet). Assessed value for mineral properties for the 1997-98 fiscal year was \$1.3 billion. This represents about 5 percent of the Santa Barbara County's total property roll value.

An auditor–appraiser III in the business property division appraises the mineral properties in the county. An outside mineral consultant provides assistance for reserve estimates and review of operating plans. Several mineral consultants are retained as needed to assist in appeals. This staffing method appears to make optimum use of county resources. The auditor–appraiser has received specific training in mineral property appraisal, and the production graphs kept in the county are generally up-to-date.

In the prior two Santa Barbara County surveys, we recommended the county discontinue the use of arbitrary minimum assessment values on marginal or inactive petroleum properties. We now retract the recommendation because the minimum assessment value is needed to allow the property to be recorded on the tax roll. Since the Santa Barbara Tax Collector does not send out tax bills under \$5, the arbitrary minimum assessment (\$400) allows the assessor to maintain the parcel number on the property tax roll. It also allows for any changes in the mineral rights value due to improved economic conditions or new petroleum reserves to be easily entered onto the roll. In the last two years, many of these minimum value leases have been abandoned and the mineral rights value has been reduced to zero on the assessment roll.

RECOMMENDATION 7: *Revise the petroleum appraisal procedures by: (1) adjusting base year values for properties that have had reserve reductions beyond depletion; (2) recognizing all revenue to the property when determining current market value; (3) prorating the value of idle wells to reflect proved reserves; and (4) recognizing abandonment expenses when they are expected to occur.*

Adjust base year values for reserve reductions beyond depletion

We found in our current examination of appraisal records that the base year values have not been adjusted to account for decreases in value due to reductions in the amount of reserves beyond depletion from production. This tends to overstate the base year value of the property. We also found, however, that the county does make the proper adjustments for increases in reserves.

The base year mineral rights value must be adjusted for positive and negative effects of changes to reserves for reasons other than depletion. Negative changes in proved reserves can result from changes in production characteristics of the field or changes in economics (Property Tax Rules 468(a) and 468(c)(2)). Rule 468 requires that reduction to proved reserves be reflected in the adjusted base year value. Failure to make the proper adjustments to the base year value for reductions in proved reserves overstates the value of the mineral right.

Recognize all revenue to the property when determining current market value

The county appraiser failed to include gas production in the revenue stream on several properties reviewed in our survey. Information from the forms filed by the taxpayer indicated that gas was being sold from the property. Failure to include all the income understates the value of the property. It is important when valuing a property that all revenue sources be included in the discounted cash flow analysis.

Prorate the value of idle wells to reflect proved reserves

The county appraiser's current practice is to value idle wells at 100 percent of the idle well value. This method fails to consider that the value of an idle well is related to the level of proved reserves in the same way as an active well value.

The value of idle wells should be prorated by the ratio of proved reserves to total recovery in the same manner as active well values. Otherwise, near the end of the property life, there is the potential that idle well values will exceed that of the active wells.

Recognize abandonment expenses when they are expected to occur

On one property we reviewed, a cash flow analysis prepared by the county appraiser indicated the county deferred abandonment expenses until four years after the property was expected to cease production. This practice is contrary to the BOE recommended practice of either recognizing expenses when they are expected to occur or providing for an annual deduction in the cash flow to cover these future expenses (sinking fund). In this case, the property operator

provided a complete schedule of when capital expenditures were expected to be made, including a detailed schedule of abandonment expenses.

The proper appraisal procedure is to allow a deduction from income over the life of the property that will accumulate sufficient funds for abandonment, or to schedule the abandonment expenses the year after the economic limit has been reached. Deferring the abandonment expenditure for several years after the property has ceased production overstates the value of the property.

MINING PROPERTIES

Santa Barbara County has a limited number of sand and aggregate producing properties. The auditor-appraiser who appraises the petroleum properties also appraises the mining properties and utilizes outside mining appraisal consultants when necessary. A positive feature of the mining property appraisals is the county's use of a three-year average to temper the capricious production characteristics of these properties.

RECOMMENDATION 8: ***Revise the mining properties appraisal procedures by: (1) including mineral rights in the appraisal unit; (2) reconstructing mineral appraisal worksheets to reflect provisions of Property Tax Rule 469; (3) requiring property statements be completed with all necessary information to make an appraisal; and (4) documenting differences between reserves reported by the property owner and those used by an appraiser to value property.***

Include mineral rights in the mineral property appraisal unit

We found a lack of documentation to indicate whether mineral rights were being included in the appraisal unit along with the improvements. It appeared that the determination of whether to enroll the current market value or the adjusted base year value is performed separately for the mineral rights and improvements. Under this procedure, it is possible for the county to enroll a current market value for mineral rights and an adjusted base year for improvements, or the reverse. This procedure is not in complete compliance with the provisions of Property Tax Rule 469.

To properly account for changes in value, mineral properties must be appraised as a unit consisting of land, mineral rights, and improvements.⁴ The adjusted base year value of the appraisal unit should be calculated along with the current fair market value. The lesser of these two total values must be enrolled. Assessors' Handbook Section 501 (AH 501), *Basic Appraisal*, states that the appraisal unit should be what most likely would transfer in the marketplace. While it is possible that the various components of the mining property would sell separately, standard appraisal practice and regulatory provisions prescribe the appraisal of the property as a unit and value allocated to the component assets.

⁴ Beginning in 1999, leach pads, tailings facilities, and settling ponds must be appraised as separate appraisal units.

Rule 469(1)(C) requires that the appraisal unit, for purposes of declines in value of mineral properties, shall include “land, improvements including fixtures, and reserves.” Assessors’ Handbook Section 560 (AH 560) *Assessment of Mining Properties*, provides sample worksheets for making the necessary calculations.

Reflect provisions of Property Tax Rule 469 in the mineral appraisal worksheet

The county uses a mineral property appraisal worksheet that does not provide for all value determinations required by Rule 469. The sheet also refers to nonexistent rules. This is likely to confuse the taxpayer. The county’s calculations for new reserves are not consistent with the provisions of Property Tax Rule 469.

Property Tax Rule 469 requires that a new reserve value is determined by calculating the current market value of all proved reserves and then calculating the market value of proved reserves prior to the addition of new reserves. The difference between the two values is the value of the new reserves to be added to the adjusted base year value from the previous year.

The mineral appraisal worksheet should be redesigned to provide for the calculation of the new reserve value under the provisions of Property Tax Rule 469.

Ensure property statements are complete with all necessary appraisal information

Mineral property owners are required to file an annual property statement with the assessor on which the owner reports, among other things, income information. One property we reviewed indicated that the royalty was based on gross sales from the property. However, the property owner failed to provide information regarding sales price or royalty of the product. Only the minimum royalty payment information was provided, which was substantially lower than the total royalty payment reported. The price information is readily available to the property owner and should be provided to the assessor under section 441(d) of the Revenue and Taxation Code.

The assessor should require that all property statements be complete when filed by the taxpayer. Those property statements missing key information should not be accepted by the assessor and should be returned to the taxpayer for completion. The assessor can use the provisions of section 463 which provides for a 10 percent penalty assessment when the taxpayer fails to submit information to the assessor on a timely basis.

Document differences in reserve estimates used in the appraisal process

Several appraisals we reviewed indicated reserve estimates were used that were significantly different from those reported by the property owner. There was no documentation in the file to indicate the reason why the county appraiser used a different reserve estimate from what the property owner reported.

Reserve estimates are a critical part of any mineral appraisal. Significant deviation from the taxpayer's reported reserve estimate in the appraisal process should be documented to facilitate review. Review may be necessitated for any number of reasons including appeals hearings, changes in ownership, or compliance reviews such as internal reviews and BOE surveys.

PIPELINE RIGHTS OF WAY

Intercounty pipeline rights-of-way were assessed by the BOE from about 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority (*Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42). The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be assessed by county assessors. Consequently, beginning with the 1995-96 fiscal year, assessors have been required to assume assessment responsibilities for the valuation of intercounty pipeline lands and rights-of-way.

Seven different companies have pipeline rights-of-way in Santa Barbara County. The assessor has assigned an auditor-appraiser the duty of assessing these pipelines. In 1995, questionnaires were sent to these companies. The returned questionnaires were compared to records of the BOE's Valuation Division and any discrepancies were investigated. Our interviews with the Santa Barbara staff indicated a cooperative and helpful response from the pipeline companies.

The county has developed a computerized spreadsheet and a new set of assessor parcel numbers within their computer database that track each pipeline by company. The company is assigned one parcel number where the pipeline value from each tax rate area is totaled and placed on the roll each lien date. We checked the current roll values and confirmed that the values have been correctly factored from their 1975 base year.

When valuing the pipeline rights-of-way prior to the court decision, the BOE developed "density classifications" for appraisal purposes, and assessors have generally adopted this methodology. Santa Barbara County has only two density classifications, low and transitional. Low value density is valued at \$9,000 per mile and transitional density is valued at \$12,000 per mile.

We found that all pipeline rights-of-way in Santa Barbara County are being valued in accordance with sections 401.8 through 401.12. We commend the assessor for his effort in establishing a well-organized program for tracking and assessing these properties.

BUSINESS AND PERSONAL PROPERTY VALUATION AND ASSESSMENT

INTRODUCTION

The Santa Barbara County Assessor's Office business property division annually assesses more than 16,000 business and agricultural accounts, 530 aircraft, 6,300 pleasure boats, and 240 fishing boats, for a total assessed value of over \$1.9 billion on the 1997-98 assessment roll. The business property division staff consists of a manager, supervisor, five permanent auditor-appraisers, one appraiser, three auditor-appraisers, a clerk typist, and two account technicians funded by PTAP funds.

The BOE's CPTD sampling of the 1994-95 Santa Barbara County local assessment roll included 20 secured and unsecured business, agricultural, aircraft, and boat properties. In 11 of the sampled items, the county values differed from those determined by CPTD staff. Specifically, the county's assessed values exceeded the CPTD staff's appraised values in the cases of five sampled items, while in six cases the CPTD staff's appraised values were higher. These sample item differences, expanded by statistical measurement to represent all business and personal property assessed on the local 1994-95 roll, indicates underassessments of approximately \$276,096,132, and overassessments of approximately \$57,873,221.

AUDIT PROGRAM

Section 469 and Property Tax Rule 192 provide that the assessor shall audit a taxpayer's profession, trade, or business once every four years whenever the locally assessable trade fixtures and business tangible personal property have a full value of three hundred thousand dollars (\$300,000) or more for four consecutive years. These are known as mandatory audits. When the audits are not completed timely, any assessment changes beyond the four-year span will be lost unless a waiver of the statute of limitations, as provided for in section 532.1, has been signed by the taxpayer or his/her legal agent.

Audit Program Improvements

Our prior survey noted a serious backlog problem in the timely completion of mandatory audits, inconsistency of audit documentation, lack of a nonmandatory audit program, and incorrect procedures in determining audit results and enrolling escaped assessments. Significant improvements have been made since our last review.

- A PC-based audit program linked to all audit staff and supervisors allows the staff to customize the audit program to fit a particular auditing situation, provides for immediate supervisor review and corrections, and generates documents initiating any roll changes due to the audit. Historical asset listings, including type of equipment, cost, and year of acquisition are obtained from the taxpayer, inputted into the audit program, and processed.

- Using PTAP funding, two new account technician positions were added to assist the audit staff in the inputting of historical cost information, field checking of businesses, and other audit functions. Also, three new auditor-appraiser positions were approved using PTAP funding.
- Audit quality and consistency has improved through the use of an audit checklist, procedures manual, training, and audit review.
- A computerized audit log tracks all mandatory audits from assignment to completion and provides for management reports by completed audits, uncompleted audits, audits by a particular auditor, etc.
- When a mandatory audit will not be completed timely, the account technician sends to the taxpayers requests for waivers of the statute of limitations.

Audit Production

RECOMMENDATION 9: Bring the mandatory audit program up to current status.

At the time of our prior survey, a serious deficiency existed in the mandatory audit program. At that time, the audit workload included incomplete audits three to four years in arrears. While significant progress has been made since then in completing the backlogged audits, as of the beginning of July 1997, the audit program was in arrears by 178 mandatory audits.

Unexpected staff turnover in the last three years reduced the permanent audit staff from five auditor-appraisers down to two. As previously mentioned, three auditor-appraisers and two account technicians were hired with PTAP funding in mid-1996. In spite of audit program improvements, the combination of personnel losses and training time devoted to new audit staff resulted in reduced audit production for several years. As the new audit staff become fully trained, increased audit production is expected to eliminate the mandatory audit backlog and enable staff to keep the status of mandatory audits current.

We strongly recommend the mandatory audit program be a top priority in the allocation of program resources. With the improved organization, management, and efficiency of the audit program, the audit staff should be able to continue its progress in bringing the mandatory audit program up to current status.

Assessment Roll Changes

The prior survey recommended the roll change forms used to process audit changes properly reflect the statutory authority for the roll change, penalties, and applicable interest. Our current review noted the business division has implemented this recommendation by developing:

- Written procedures that list and briefly explain the laws pertinent to the assessment of business property.
- Written procedures that identify and explain statutory references pertaining to assessment roll escapes and refunds resulting from an audit.

- Review of roll changes by the audit supervisor prior to processing.
- Roll change documentation prepared by a computerized audit program as part of the audit process.

We commend the business property division staff for the improvements to the assessment roll change process. However, we noted one area that needs further improvement.

RECOMMENDATION 10: Follow statutory requirements when determining audit results and enrolling escaped assessments.

The prior survey noted several incorrect procedures in determining audit results and enrolling escaped assessments. We found two of these procedures have not been corrected.

Based on our review of a random sample of audits, the audit staff continues to enroll audit adjustments only when the full value difference is considered to be significant. Generally, the auditor-appraiser does not recommend changes unless the differences are equal to or greater than 5 percent of the audited full cash value. Infrequently, the audit supervisor, after audit review, may overrule the recommendation, but generally the 5 percent rule prevails.

The assessor does not have the statutory authority to arbitrarily exempt or elect to not enroll taxable property. Section 155.20 delegates the authority to exempt property having a low value to the county board of supervisors, and states that the assessor is not authorized to exempt or not enroll any property of any value, unless specifically authorized by a county board of supervisors. Furthermore, the low value exemption applies only to the total full cash value of the taxable property, not an incremental value difference as is the case in an audit finding. Therefore, all assessed value audit adjustments should be enrolled.

Also noted in our current review was the misuse of the test year provision as provided for in Property Tax Rule 193. We found that only one audit year was examined even when there was a discrepancy in the audit year. Certain errors resulting in an underassessment or overassessment in the test year necessitate the scope of the audit be expanded to include all eligible years. Property Tax Rule 193 (a) states, in part:

. . .the assessor shall audit the remaining fiscal years for which the statute of limitations has not run unless he documents in the audit report his conclusion both (1) that the discrepancy or irregularity in the fiscal year first selected is peculiar to that fiscal year and (2) that the discrepancy or irregularity did not permit the assessment of an escape. . .

Use and selection of a test year is an option available in determining the audit scope. A full audit for the entire four-year audit scope may be required contingent on the test year findings. Proper consideration should be given to the reason for audit differences before the option allowed under

Property Tax Rule 193 is taken. We recommend the business property division staff enroll all audit differences and use the test year provision according to the guidelines in Property Tax Rule 193.

BUSINESS PROPERTY ASSESSMENT

Section 441 requires that every person owning taxable personal property having an aggregate cost of \$100,000 or more for any assessment year shall file a signed Business Property Statement (BPS) with the assessor. Every person owning personal property that does not require the filing of a BPS must, upon request of the assessor, file a signed BPS.

When the taxpayer fails to file the statement, section 501 gives the assessor the authority to make an arbitrary assessment of value. Additionally, section 463 provides that “a penalty of 10 percent of the assessed value of the unreported taxable tangible property of such person placed on the current roll shall be added to the assessment made on the current roll.”

The Santa Barbara County Assessor’s business property division annually processes over 16,000 property statements for business and agricultural accounts in addition to 7,000 boats and aircraft. These assessments are processed using personal computer database software. The values are then uploaded to the unsecured roll on the mainframe computer. Tax bills are sent to the taxpayers for those accounts processed each month on the unsecured system. The secured roll values must be manually keyed into a separate mainframe computer system for the secured roll.

Significant improvements have been made to the business property division program since our previous assessment practices survey. The assessor has implemented several recommendations made in our last survey to streamline workflow, increase tax revenues, and provide compliance with the Revenue and Taxation Code.

- Welfare exempt organizations now receive annual business property statements and are assessed and audited under the provisions of sections 441, 463, and 469.
- Personal property assessments are secured to real property whenever possible.
- Taxpayers who habitually fail to file property statements are contacted periodically to ensure estimated values made under section 501 are reasonable.
- Leased equipment reported by welfare claimants is referred to the business property division for valuation purposes.

RECOMMENDATION 11: Apply the 10 percent penalty per Revenue and Taxation Code section 463 to secured business accounts.

This recommendation is repeated from our prior survey. When taxpayers file property statements late or not at all, the business property division staff applies the mandatory penalty as prescribed by section 463, but only to unsecured accounts. The county’s computer system for the unsecured property tax roll calculates this 10 percent penalty and adds it to the assessed value.

With the secured roll computer system, the total assessed value, including penalty, must be manually keyed into the secured roll computer system. The current secured roll computer system cannot provide the correct statutory language on the assessment roll when the section 463 penalty is applied. Consequently, the business division staff does not apply the penalty because of inadequate assessment roll notice.

The assessor agrees this recommendation should be implemented. The new property tax system START (described elsewhere in this report) will allow the assessor to apply the section 463 penalty to both secured and unsecured business property assessments along with the appropriate statutory notice.

SUGGESTION 7: Verify that business owners who report aircraft and marine vessels are receiving business property statements.

When a business owner reports a general aviation aircraft or marine vessel, the marine and aircraft appraiser values and enrolls the aircraft or vessel as a separate assessment from the business property assessment. The staff do not verify that the business itself is currently receiving a business property statement so as to report other business tangible personal property and fixtures located in Santa Barbara County.

We suggest that the marine and aircraft appraiser cross check the business owner's name and/or address with the computer system's list of active business property accounts. For those businesses not listed, a referral to the business section should be made requesting that a business property statement be sent. This source of information could be used to discover new companies with taxable property in Santa Barbara County.

EQUIPMENT VALUATION FACTORS

Taxable values for machinery, equipment, computers, and other taxable business personal property are typically computed from historical costs through the use of valuation factors. The valuation factors are the product of the price index and percent good factors. Accurate assessments depend on the proper choice and application of these price indices and percent good tables.

The BOE annually publishes price index factors and percent good factors that are used to compute current reproduction costs from historical costs for valuation of machinery and equipment. Assessors' Handbook Section 581 (AH 581), *Equipment Index Factors*, contains 12 index factor categories for commercial equipment and six index factor categories for industrial equipment. It also contains percent good factors based on a constant terminal income stream adjusted for declining income.

RECOMMENDATION 12: Use the Board's equipment index factors as recommended.

The Santa Barbara County Assessor uses the suggested price index tables from AH 581 to appraise machinery and equipment, but not in the manner intended. For commercial equipment, only three classes of equipment are used to compute replacement cost new (index factor times acquisition cost) rather than using the schedule that is designed for the particular property being appraised.

Because there is a wide range of price index factors, it is important that the appropriate equipment category is selected. Using only three schedules for different categories of equipment may result in only a small difference in overall total valuation, but the accuracy of specific categories will be materially distorted. Averaging indices sacrifices accuracy for convenience, which results in inequitable treatment of taxpayers. Some categories of equipment will be overassessed, some will be underassessed, and some will be properly assessed.

We recommend the appropriate price index factor be used for each category of equipment, both commercial and industrial.

COMPUTERS

The valuation of computers and related equipment has been a contested issue between taxpayers and assessors for the last few years due to the rapid obsolescence of computerized equipment. For each of lien dates since 1994, the BOE has issued separate valuation tables specifically for computers.

Currently, the computer tables indicate valuation factors for small computers, mid-range computers, and mainframe computer systems. These factors are developed using data submitted to the BOE from representatives of the computer industry, the California Assessors' Association, and the BOE's Property Taxes Department. Our review showed the assessor is appropriately valuing computers using the BOE-recommended factors.

VESSELS

One appraiser handles all aspects of both the vessel and aircraft appraisal program. The county has one major harbor and approximately 6,000 vessel assessments, consisting of pleasure boats, commercial fishing boats, and sightseeing boats.

The marine appraiser has an aggressive and thorough program for discovering assessable vessels. The Department of Motor Vehicles (DMV) periodically sends a vessel report containing updated information on vessel ownership and situs. The county utilizes a DMV computer terminal hook-up to obtain current registration information on vessels. In addition, the harbormaster annually reports current boat slip occupants and has a cooperative working relationship with the marine appraiser. The local yacht sales company provides information on recent boat sales, and documented vessel information is found on the Maritime Information Systems compact disc

showing name, address, boat number, and description. Field review is used to discover assessable boats launched from trailers.

Based upon size and age of the vessel, about 2,000 vessels are automatically depreciated 5 percent each year, until the value of the boat reaches \$400 and is dropped from the assessment roll. A special study, conducted in the summer of 1997, compared the assessed value of these automatically depreciated vessels to current market values. The study found the overall difference between the assessed value and market value was only 2 percent. The criteria used to select boats for this automatic depreciation was also examined as part of this study.

The majority of the vessels, approximately 4,000, are assessed at market value based on individual appraisals done on a two-year cycle. Individual market value appraisals are also prepared for vessels newly situated in Santa Barbara County, changes in ownership, at the vessel owner's request, or upon protest of the assessed value.

There are approximately 200 commercial fishing vessels assessed in Santa Barbara County. Under the provisions of section 227, these vessels may be eligible for assessment at 4 percent of their current market value. We found the assessment of commercial fishing vessels to be properly administered and consistent with the provisions of section 227.

AIRCRAFT

In accordance with section 5364, the BOE has approved a commercially available price guide, *Aircraft Price Digest*, to be used by the county assessors in the assessment of aircraft at market value. The Santa Barbara County Assessor's Office aircraft appraiser values aircraft using the *Aircraft Price Digest* on compact disc format.

Our review of the aircraft appraisal program found good procedures, controls, and documentation in the discovery, tracking, and valuation of aircraft. Adjustments are being made for engine hours since the last overhaul, additional equipment, condition of aircraft, and sales tax. We commend the assessor for implementing our previous recommendation on aircraft assessment.

APPENDIX

THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the Board's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the Board's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured).⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁵ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the

allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

One of the primary functions of the assessment practices survey team is to investigate areas of differences disclosed by the sampling survey data, determine the cause and significance of the differences, and recommend changes in procedures that will reduce or eliminate the problem area whenever the changes are cost effective or are required by legal mandate. Consequently, individual sample item value differences are frequently separated into segments when more than one problem is identified, and the results expanded and summarized according to the causes of the differences. Much of the support for the County Property Tax Division's recommendations in the form of fiscal and numerical impact is drawn from the expanded sample data, and statistics relating to specific problems have been incorporated in the text of this report.

Emphasis is placed on factors directly under the county assessor's control. Differences due to factors largely beyond the county assessor's control, such as:

- a) conflicting legal advice,
- b) construction performed without building permits,
- c) unrecorded transfer documents,

d) assessment appeals board decisions, and

e) factors requiring legislative solution

are specifically identified in the text when these problems are reflected in the statistics.

ASSESSOR'S

RESPONSE

TO

BOARD'S

RECOMMENDATIONS



SANTA BARBARA COUNTY
 KENNETH A. PETTIT
 County Clerk-Recorder-Assessor & Registrar of Voters

We Provide
 Courteous
 Public Service

Richard Johnson, Deputy Director
 Property Taxes Department
 State Board of Equalization
 450 N Street
 Sacramento, CA 94279

RECEIVED

OCT 9 1998

DEPUTY DIRECTOR
 PROPERTY TAXES

October 8, 1998

Mailing Address
 County Clerk-
 Recorder-Assessor
 & Registrar of Voters
 PO Box 159
 Santa Barbara, CA
 93102-0159

Dear Mr. Johnson:

I am pleased to receive the State Board of Equalization's (SBE) 1998 Assessment Practices Survey for Santa Barbara County. Our Department considers the 1998 Survey as confirmation that improvements to our assessment programs have indeed occurred.

As noted in your 1998 Survey, we are especially proud to be recognized for the following achievements:

- ✓ Attainment of a 99.8% assessment level which is indicative that our assessment program complies substantially with property tax statutes;
- ✓ Implementation of many 1994 Assessment Practices Survey recommendations (30 recommendations and 7 suggestions);
- ✓ Achievement of a budget per roll unit cost that is lower, and a workload unit total that is higher, than the average for comparably sized counties;
- ✓ Adherence to AB 818 State-County Property Tax Program provisions and achievement of our performance goals;
- ✓ Improvement in the scheduling and monitoring of statutory requirements for the training and certification of appraisal staff;
- ✓ Development of personal computer applications related to property ownership, fictitious business names, multiple claims listing, appraiser worksheet, assessment appeals and comparable sales data bases;
- ✓ Modernization of mapping functions via the use of scanning technologies and computer assisted drafting;

Assessor
 Santa Barbara
 (805) 568-2550
 Fax (805) 568-3247
 Santa Maria
 (805) 346-8310
 Fax (805) 346-8324
 Lompoc
 (805) 737-7899

Elections
 1-800-SBC-VOTE
 Santa Barbara
 (805) 568-2200
 Fax (805) 568-2209
 Santa Maria
 (805) 346-8374
 Fax (805) 346-8342
 Lompoc
 (805) 737-7705

Recorder
 Santa Barbara
 (805) 568-2250
 Fax (805) 568-2266
 Santa Maria
 (805) 346-8370
 Lompoc
 (805) 737-7705

-
- ✓ Continued leadership in the development of a geographic information system (GIS) suitable not only for assessor functions but also for the benefit of other County agencies;
 - ✓ Effective documentation of assessment appeal cases, including utilization of accepted appraisal methods to reflect values that were well supported by market data;
 - ✓ Improved coordination of assessment appeal functions with the Clerk of the Board to improve tracking, scheduling, and handling of assessment appeals;
 - ✓ Adherence to Section 170 (disaster relief) guidelines, thereby insuring that taxpayers receive prompt and fair treatment;
 - ✓ Development and utilization of an effective Roll Correction Worksheet to insure that secured roll corrections are consistent with state law;
 - ✓ Development and maintenance of comprehensive manuals relating to Employees' Policies, Operations Division practices, and Business Division guidelines;
 - ✓ Development and utilization of a Change of Ownership Manual, resulting in an efficient and effective system;
 - ✓ Realization of improvements to the Legal Entity Ownership Program (wherein the SBE found that in all instances the affected parcels had been reviewed and re-appraised as necessary);
 - ✓ Completion of improvements for building permit processing (wherein SBE tracking of 32 randomly selected permits revealed that the permits were properly processed and the new construction appropriately valued and enrolled);
 - ✓ Carry through of good communication and coordination between real property and business property divisions regarding assessment of tenant improvements;
 - ✓ Combination of appraisers and auditor-appraisers within the commercial property section, thereby enhancing coordination and consistency in the assessment of tenant improvements and business property;
 - ✓ Administration of a Section 51 program in full compliance with state law;
 - ✓ Establishment of correct enrollment procedures for taxable government owned properties;
 - ✓ Conscientious improvements to the possessory interest assessment program, including an exemplary job of discovery of possessory interests at Vandenberg Air Force Base;
 - ✓ Attainment of sufficient documentation of appraisal records for manufactured homes;
 - ✓ Administration of a well organized program for assessment of pipeline rights of way in accordance with state law;

- ✓ Completion of significant improvements to the mandatory audit program including:
 - Adoption of a PC-based audit program linking all staff and supervisors thereby providing for uniform treatment of taxpayer accounts;
 - Development and input of historical cost information and business field checks;
 - Improved audit quality and consistency through the use of an audit checklist, procedures manual audit review, and staff training;
 - Computerized tracking of audit assignments;
 - Mailing of audit waivers to extend the statute of limitations.
- ✓ Implementation of 1994 Assessment Practices Survey recommendation resulting in a commendation to staff for improvements to the assessment roll change process;
- ✓ Implementation of significant improvements to the business property assessment process regarding:
 - Business property statements to welfare exempt organizations;
 - Linkage of personal property accounts to real property;
 - Establishment of a "habitual late filers" procedure; and
 - Cross referencing of leased equipment to welfare claimant accounts;
- ✓ Attainment of proper assessment of commercial fishing vessels as required by state law;
- ✓ Realization of good procedures, controls, and documentation in the discovery, tracking, and valuation of aircraft.

In a cooperative spirit with the SBE, we strive to always improve our property assessment system in order to insure the fair and equitable assessment of all taxable property in our County. The following are our responses to the SBE 1998 Assessment Survey (recommendations 1 through 12 and suggestions 1 through 7).

Response Recommendation Number 1: The Department's past success in training appraisers will continue and appraisers who are deficient in training hours will be made current within one year.

Response Recommendation Number 2: The Assessor will strive to comply with this recommendation. The law does provide for supplemental assessments on improvements of this nature. Increased workload would be expected with value neutral results. The actual issuance of these assessments is complicated by the manner of reporting on the Business Property Statement, multiple improvements, varying dates of completion and demolition and multiple tenancies. We understand that many counties have varying methods of handling these assessments.

Response Recommendation Number 3: In fiscal year 1997-98, the staff began an evaluation of the agricultural valuation program and the scope of work included a staffing review. We expect that the evaluation will be completed by July 1, 1999.

Response Recommendation Number 4: The Assessor will strive to comply with this recommendation. As in all assessments, Santa Barbara County endeavors to identify and assess all taxable possessory interests utilizing market incomes and rates.

Response Recommendation Number 5: The recommendation focuses on a 1989-90 assessment that was based on a 1984 change in ownership date, but enrolled for the 1989-90 roll. The Assessor will strive to insure that all taxable property be assessed as of the appropriate event date in the appropriate assessment year.

Response Recommendation Number 6: Staff will be assigned to complete this task.

Response Recommendation Number 7: Santa Barbara County produces assessments on over 500 mineral properties with a total assessed value in excess of one billion dollars. The Assessor will strive to comply with all recommendations, keeping in mind these considerations:

- (1) Our goal in all cases has been to comply with Rule 468 and enroll the proper adjusted base year value or market value to reflect reserve depletions and/or increases. We believe we are in substantial compliance with Rule 468.
- (2) We strive to include all revenue sources in all appraisals. The SBE indicated that gas revenue was not considered on several properties, however the Assessor often recognizes this gas revenue by increasing the oil price to include an amount for gas and gas liquids.
- (3) We will review our idle well calculations; often the value allocated to idle wells is minimal compared to the total property value. While the value of wells is associated with reserves, the well value is not dictated by the reserves.
- (4) We believe abandonment expense has been properly recognized as of the date it was expected to occur; at times abandonment is not expected to occur until years after production has ceased.

Response Recommendation Number 8 (by sub-part number): [1] Mineral rights are, of course, typically taxable, and the Assessor agrees with the SBE that their assessment and valuation should be clearly documented and valued in accordance with Rule 469.

The Assessor believes that our current practices and procedures are in substantial compliance with property tax Rule 469. In every appraisal, the appraisal unit is subject to the judgment of the appraiser. The appraisal unit may consist of land, improvements, and minerals, or some combination. The appraisal unit is not defined or required by any appraisal practice, code or rule.

The SBE states that to "properly account for changes in value, mineral properties must be appraised as a unit consisting of land, mineral rights, and improvements." Definition of the proper appraisal unit is often problematic and often requires an appraiser's judgment. We are not aware of "standard appraisal practice" or statutory provisions that, in fact, prescribe just what the appraisal unit is in a particular appraisal.

Definitions of the appraisal unit always include references to what is typical, most likely, normal, or what is common. Indeed, Appraisal Handbook 501 recognizes that it is at times difficult to identify the appraisal units. This is recognized at page 11 of the Handbook, which reads:

"In some cases though, the identification of the appraisal unit may not be easily discernible...the appraiser must use judgment to determine the proper unit."

In recognition of this discretion, Rule 469(e) permits "the assessor has full discretion to select the appropriate appraisal method."

[2] As there is no SBE mandated mineral worksheet, the Assessor will continue work to revise and improve its own mineral worksheet. The worksheet that is in use is proper. The mineral value calculations made by the Assessor are accurate and complete. The worksheet has recently been revised and we know of no instances where the worksheet has confused a taxpayer.

[3] The Assessor agrees that all taxpayers should file a complete property statement, and the Assessor does make all reasonable attempts to secure all needed information. We agree with the SBE that "information is readily available to the property owner and should be provided to the assessor." However, all taxpayers do not provide full disclosure and securing additional information under section 441(d) is often an arduous process.

The SBE suggestion implies that a 10% penalty should be applied under Section 463 because some information is missing on the property statement. Such an interpretation is not supported by Section 463. Section 463 provides for a penalty only if the statement is not filed at all or is late. There are no SBE guidelines as to what is and what is not a completed statement. If incomplete information is received, the Assessor should, more properly perhaps, issue an assessment under code Section 501, Failure to Furnish Information, rather than apply a 10% penalty under Section 463.

[4] We agree with the SBE that when the Assessor uses reserve estimates other than those reported by the taxpayer, the source of the estimate and why the owner's reserves were not used should be clearly stated. The Assessor's responsibility is to determine value using judgment and the best information available and the Assessor is not mandated to use the estimates as reported by the taxpayer.

Response Recommendation Number 9: We agree with the SBE recommendation and will continue to strive to complete all mandatory audits, in a timely manner. In recent years we have made significant improvement in both the quality and quantity of our audits in addition to reducing any backlog.

Response Recommendation Number 10: We agree with the SBE that statutory requirements should be followed. However, we believe that in accounting, appraising, and in most other professions, tests of materiality, reasonableness and substance are basic concepts and should not be abandoned in property taxation. We believe that the Assessor is in substantial compliance with all applicable codes and rules relating to mandatory audits, test years, and enrollment of escapes and corrections.

When an audit is complete it is the Assessor's policy to enroll all material market value adjustments to the market value of the property. The Assessor uses the audit test year as prescribed in Rule 193, and when material and substantial variances are found in the test year, prior years are audited. To pursue the audit into prior years due to a minor, non-material variance is not reasonable and not a service to the taxpayer.

Response Recommendation Number 11: We agree with the SBE recommendation and this system shortcoming is scheduled to be corrected in the new Santa Barbara County sponsored START computerized tax system.

Response Recommendation Number 12: We agree with the SBE that we do not use the factors specifically recommended, but we believe that we are in substantial compliance with SBE policies. The method used provides for efficient, equitable and fair assessment of all property. Santa Barbara County produces 16,000 business assessments per year with a total assessed value in excess of one billion five hundred million dollars. The factors are not averaged, rather, representative factors for various categories are chosen. The BPS processing software does not accommodate as many factors as the SBE recommends. We are in the process of redesigning the system in new software. The SBE factors from one type to another typically vary minimally and the use of a representative factor does not materially change the outcome nor sacrifice the degree of validity of the valuation.

Response to Suggestion 1: On October 6, 1998, the Clerk-Recorder-Assessor recommended that the Board of Supervisors introduce an on-going disaster relief ordinance. Ordinance adoption is scheduled for October 20, 1998. A copy of the Board Agenda Letter is attached to this response.

Response to Suggestion 2: We will continue, as we have in the past, to further develop and improve our written procedures for residential and agricultural appraisals.

Response to Suggestion 3: Appraisers have always been aware of this requirement and they have been recently reminded of this procedure.

Response to Suggestion 4: We agree and will strive to implement this suggestion.

Response to Suggestion 5: We agree with the SBE suggestion and will strive to comply. However, federal and state agencies may have policies or practices that discourage the collection of such data.

Response to Suggestion 6: We will assign staff to this task.

Response to Suggestion 7: We agree with this suggestion and will strive to comply.

In conclusion, I want to express my appreciation to your survey team, and I commend them for the professional manner in which the survey was conducted.

Sincerely



Kenneth A. Pettit
Clerk-Recorder-Assessor & Registrar of Voters

Attachment: Santa Barbara County Board of Supervisors – October 6, 1998, Agenda Letter.

**SANTA BARBARA COUNTY
AGENDA BOARD LETTER**



Clerk of the Board of Supervisors
Room 407 105 E. Anapamu Street
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:
Prepared on: 09/08/98
Department: Clerk-Recorder-Assessor & Registrar
of Voters
Budget Unit: 062
Agenda Date: September 22, 1998
Placement: Administrative
Estimated Time: Staff: None Required Total: None
Required
Continued Item: No

TO: Board of Supervisors *Kenneth A. Pettit*
FROM: Kenneth A. Pettit, County Clerk-Recorder-Assessor & Registrar of Voters
STAFF
CONTACT: *LA* Larry Herrera, Assistant County Clerk-Recorder-Assessor & Registrar of Voters, Extension 2216
JG Rich Holly, Commercial and Minerals Assessment Division Manager, Extension 2573
Jim Ginter, Residential Assessment Division Manager, Extension 2575
SUBJECT: Recommendation to Adopt an Ordinance Providing for Reassessment of Property Destroyed by
Misfortune or Calamity and for Deferral of Payment of Property Taxes Pursuant to the California
Revenue and Taxation Code.

RECOMMENDATIONS:

That the Board of Supervisors:

- A. Set October 6, 1998, for hearing and introduction [first reading] of an ordinance relating to the reassessment of property damaged by misfortune or calamity;
- B. Set October 20, 1998, for hearing and adoption [second reading] of an ordinance relating to the reassessment of property damaged by misfortune or calamity.

ALIGNMENT WITH BOARD STRATEGIC PLAN:

Goal No. 1-The recommendation(s) are primarily aligned with Goal No. 1. Re-analyze, Reform and Respond to the Changing Nature of County Resources and Responsibilities.

EXECUTIVE SUMMARY AND DISCUSSION:

DISASTER RELIEF ASSESSMENT ORDINANCES

In the 1990s, Santa Barbara property owners have suffered the results of natural disaster and calamity by way of rain, wind, fire, and landslide. Since 1990, the Department recommended Board adoption of 3 temporary disaster relief ordinances. Each of these ordinances permitted: the lowering of assessed value in proportion to

the loss in value experienced by the damaged property; and the deferment of the next payment of taxes due. Temporary relief to the property owner remained in place until the damaged property was restored to its pre-disaster condition. Upon cessation of the state of disaster or an appropriate ending period, the temporary ordinances were repealed.

PROPOSED DISASTER RELIEF ORDINANCE

Adoption of a permanent disaster reassessment ordinance is permitted pursuant to Revenue and Taxation Code Section 170 (a) [2], which reads as follows:

§ 170. Reassessment of damaged or destroyed property; eligibility; procedure

(a) Notwithstanding any provision of law to the contrary, the board of supervisors may, by ordinance, provide that every assessee of any taxable property, or any person liable for the taxes thereon, whose property was damaged or destroyed without his or her fault, may apply for reassessment of that property as provided herein.

To be eligible for reassessment, the damage or destruction to the property shall have been caused by any of the following:

- (1) A *major* misfortune or calamity, in an area or region subsequently proclaimed by the Governor to be in a state of disaster, if that property was damaged or destroyed by the major misfortune or calamity that caused the Governor to proclaim the area or region to be in a state of disaster.
- (2) An *individual* misfortune or calamity without his or her fault.

Application of the proposed ordinance will be defined further under policy guidelines developed and maintained by Clerk-Recorder-Assessor staff.

BENEFITS OF PROPOSED DISASTER RELIEF ORDINANCE

The major advantages of the proposed ordinance are several.

First, it would eliminate the need to create a new ordinance each time a major disaster occurs.

Second, it would provide tax relief to property owners who suffer individual disasters, such as fire or flooding, which may not be widespread or significant enough to trigger a Governor's declaration of disaster.

Third, the ordinance would allow tax relief for damaged property even though the full value of the damaged property (after the damage) is greater than its base value before the damage.

Fourth, the proposed ordinance would allow for the deferment from the next installment of taxes, for qualified damaged properties.

Given our County's history with disaster and calamity, the Department believes it is good public policy, and in the best interest of taxpayers, that a permanent disaster relief ordinance be adopted by your Board.

MANDATES AND SERVICE LEVELS:

Adoption of the proposed ordinance will permit staff to provide reassessment applications and field reviews on a more timely basis. The proposed ordinance also increases customer service levels by allowing for the reassessment of property damaged by structural fires, and not necessarily dependent upon a Governor's proclamation. In the absence of a major disaster (i.e., El Nino Storms, or Painted Cave Fire), the service level impact upon Department workload is estimated to be minimal.

FACILITIES AND FISCAL IMPACT:

There are no facility or fiscal impacts. Decreases in assessed value related to non-major disasters are not significant. In cases where the Governor or President declare a state of disaster, some State or Federal reimbursement may be available to refund the County for loss property tax revenues.

SPECIAL INSTRUCTIONS:

None.

CONCURRENCES:

County Counsel

ORDINANCE NO. _____

AN ORDINANCE PROVIDING FOR REASSESSMENT OF PROPERTY DESTROYED BY MISFORTUNE OR CALAMITY AND FOR DEFERRAL OF PAYMENT OF PROPERTY TAXES (CALIFORNIA REVENUE AND TAXATION CODE SECTIONS 170, 194.1 and 194.9)

The Board of Supervisors of the County of Santa Barbara ordains:

SECTION 1. Article VIII, Reassessment of Property Destroyed by Misfortune, is added to the Santa Barbara County Code, Chapter 32, Taxation, as follows:

Sec. 32-84. Every assessee of any taxable property, or any person liable for taxes thereon, whose property was damaged or destroyed by misfortune or calamity without his or her fault, whether by major disaster or individual misfortune, may apply for reassessment of that property as provided in Section 170 of the California Revenue and Taxation Code.

Sec. 32-85. The application for reassessment must be filed by delivering to the Santa Barbara County Assessor a written application requesting reassessment as required in Section 170, within 60 days of the misfortune or calamity.

Sec. 32-86. Any owner of eligible property who files on or before the next property tax installment payment date, a claim for reassessment pursuant to Section 170 may apply to the Santa Barbara County Assessor to defer payment of that installment of property taxes on the regular secured roll as provided in Section 194.1 of the California Revenue and Taxation Code or on the supplemental roll as provided in Section 194.9.

SECTION 2. This ordinance shall take effect and be in force thirty (30) days from the date of its passage; and before the expiration of fifteen (15) days after its passage it, or a summary of it, shall be published once, with the names of the Board of Supervisors voting for and against the same in a newspaper of general circulation published in the County of Santa Barbara.

PASSED, APPROVED AND ADOPTED this ____ day of _____, 1998 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

**BOARD'S
COMMENTS
ON
ASSESSOR'S
RESPONSE**

BOARD'S COMMENTS ON ASSESSOR'S RESPONSE

In accordance with the provisions of Government Code section 15645, the Santa Barbara County Assessor elected to incorporate his response to the Board's findings and recommendations in the published survey report. Section 15645 also allows the Board to include in the report comments regarding the assessor's response.

The assessor stated in his response to Recommendation 8 that "The appraisal unit is not defined or required by any appraisal practice, code or rule.... We are not aware of 'standard appraisal practice' or statutory provisions that, in fact, prescribe just what the appraisal unit is in a particular appraisal." He also quotes page 11 of Assessors' Handbook section 501, *Basic Appraisal* (AH 501), to support his contention that the appraiser must use judgment to determine the proper appraisal unit.

The assessor's statements are correct with respect to most property types but are incorrect with respect to mining properties, which are the subject of Recommendation 8. In the case of mining properties, it is not a matter of appraisal judgment; it is specified by Rule 469.

Due to new legislation adopted subsequent to our survey, for 1999 and future years it will be necessary to assess leach pads, tailings facilities, and settling ponds as separate appraisal units for purposes of determining loss in value of those properties (section 53.5, Revenue and Taxation Code). Otherwise, the assessor and assessment appeals board must follow the specific provisions of Rule 469.

The reference to AH 501 is correct for most properties but is inappropriate for mining properties. Assessors' Handbook section 560, *Assessment of Mining Properties*, contains specific directions on the proper appraisal unit for mining properties (see pages 6-6 and 9-3 of AH 560). AH 501 is a basic manual, and, as stated in the Foreword:

If there is an inconsistency resulting from the absence of technical data in this basic and general manual and more advanced information in another more specific manual, the more specific manual controls.

Again, we urge the assessor to determine the appraisal unit in accordance with Rule 469 (with the exception provided by section 53.5).